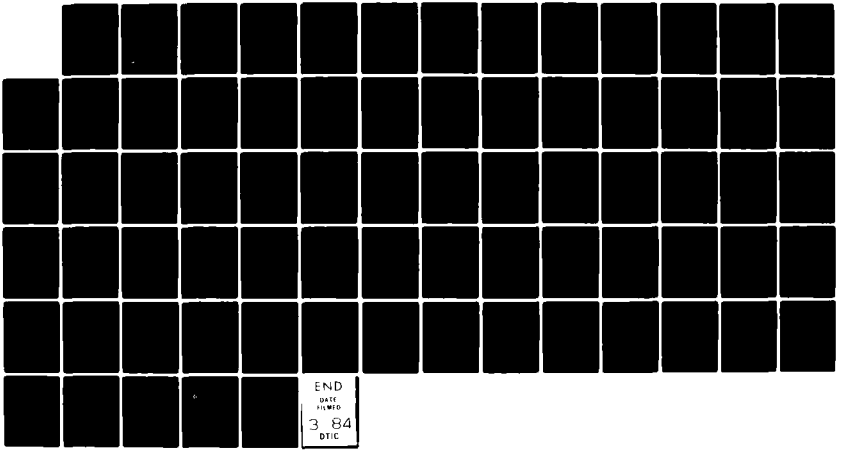
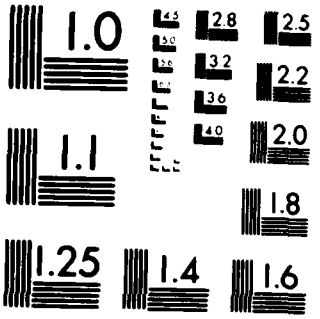
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Report To The Commissioner Of Internal Revenue

Expediting Tax Deposits Can Increase The Government's Interest Earnings

Because of the Congress' continuing interest in improving the cash management practices of Federal agencies, GAO reviewed Treasury Department and Internal Revenue Service (IRS) procedures for depositing tax receipts. GAO found that, while Treasury and IRS have made significant progress, further opportunities exist for increasing interest earnings.

--Greater use could be made of the tax deposit services provided by financial institutions.

--Deposits by IRS field offices could be accelerated.

--IRS check sorting could enable financial depositaries to make tax receipts available to the Government sooner.

IRS generally agreed with GAO's recommendations and outlined actions to implement them.

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GAO/GGD-84-14
NOVEMBER 21, 1983

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

B-208617

The Honorable Roscoe L. Egger, Jr.
Commissioner of Internal Revenue
Department of the Treasury

Dear Mr. Egger:

This report discusses several ways IRS can more efficiently deposit tax receipts, thereby increasing interest earnings for the Government.

The report makes recommendations to you on pages 19, 30, and 41. As you know, 31 U.S.C. §720 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Copies of this report are being sent today to the Chairmen of the House and Senate Appropriations Committees; the Chairman, House Committee on Ways and Means; the Secretary of the Treasury; the Commissioner, Bureau of Government Financial Operations; the Director, Office of Management and Budget; and other interested parties.

We appreciate the cooperation and assistance provided us by IRS personnel. We look forward to working with you on other tax administration matters in the future.

Sincerely yours,

William J. Anderson
Director

GENERAL ACCOUNTING OFFICE
REPORT TO THE COMMISSIONER
OF INTERNAL REVENUE

EXPEDITING TAX DEPOSITS CAN INCREASE THE GOVERNMENT'S INTEREST EARNINGS

D I G E S T

Over the past several years, the Department of the Treasury and the Internal Revenue Service (IRS) have earned additional interest income for the Government by speeding up deposits of tax receipts. For example, IRS estimates that its recent action to reduce the time taken by service centers to deposit tax receipts resulted in interest earnings of $33.8 million during the first 7 months of 1982.

Because of the Congress' interest in improving the cash management practices of Federal agencies, GAO reviewed Treasury's and IRS' procedures to determine whether tax receipts could be deposited more quickly, thereby increasing interest earnings. GAO found that, while Treasury and IRS have made significant progress, more could be done. For example,

--greater use could be made of the tax deposit services provided by financial institutions (see p. 7);

--deposits by IRS field offices could be accelerated (see p. 21); and

--IRS check sorting could enable financial depositaries to make tax receipts available to the Government sooner (see p. 32).

GREATER USE OF FEDERAL TAX DEPOSIT SYSTEM COULD INCREASE INTEREST EARNINGS

Under the Federal Tax Deposit (FTD) system, certain taxpayers are required by regulation to deposit tax remittances directly into Treasury accounts at authorized financial depositaries. Use of the system results in earlier availability of tax revenues to the Treasury and increases the Government's interest earnings. In fiscal year 1982, taxpayers deposited $491.7 billion under the FTD system.

Taxpayers use preprinted cards to make their FTD payments at a depositary. If taxpayers

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November 21, 1983

either do not have these cards or need to change the information contained on them, IRS will accept the tax payments rather than requiring them to be sent to a depositary. In fiscal year 1981, IRS processed and deposited about $9.2 billion in payments made in this manner. GAO estimates that, in fiscal year 1981, the foregone interest associated with processing about $1.3 billion in payments that were sent to two IRS service centers instead of to financial depositaries was about $2.3 million. (See p. 7.)

In the last several years, IRS has reduced the foregone interest associated with payments being made to it rather than into the FTD system by reducing the time it takes to process and deposit such payments. IRS also plans to tighten the controls over the process that supplies FTD cards to taxpayers after it assumes responsibility for this function from Treasury's Bureau of Government Financial Operations in January 1984. However, neither of these actions will address a concern of Treasury officials--that some taxpayers are sending these payments to IRS because the withdrawal of funds from taxpayer bank accounts is delayed by IRS' processing time.

GAO believes that the number of payments deposited into the FTD system could be greatly increased if IRS required taxpayers to send all payments accompanied by FTD cards to depositaries and if IRS applied existing penalties when payments were inappropriately sent to IRS offices. However, to do the latter, IRS will first need to develop procedures to identify taxpayers who are not complying with its regulations. (See p. 17.)

PROMPTER DEPOSIT OF FIELD OFFICE RECEIPTS COULD INCREASE INTEREST EARNINGS

IRS district offices are responsible for processing and depositing taxes received by revenue officers and agents. Placing the deposit

function in district offices delays the deposit of taxes received by officers and agents in field offices because funds must, in turn, be submitted to the district offices before they can be deposited.

On the basis of a sample of field office receipts, GAO estimates that field offices in the two IRS regions it visited received at least $638 million from January 1981 to March 1982. Moreover, GAO estimates that the 5- to 7-day delay associated with mailing or hand-carrying these receipts to district offices resulted in foregone interest earnings of about $1.3 million. (See p. 21.)

GAO believes IRS should reduce the deposit time for field office tax receipts. Among other things, IRS should consider (1) allowing field offices to deposit tax receipts in local banks or (2) allowing field offices to mail tax receipts directly to nonlocal banks instead of to district offices. (See p. 23.)

CHECK SORTING OFFERS ADVANTAGES TO THE GOVERNMENT

Before presenting a check for payment, banks must sort each check by the location of the bank paying the check. The time taken by banks to sort checks is one factor governing when IRS must make its deposit in order for the Treasury to obtain next day availability of the funds.

Recent equipment tests supported IRS' belief that it will obtain more favorable deposit cycles by installing check sorting equipment at the Fresno Service Center. In so doing, Treasury's Bureau of Government Financial Operations estimates that the Government will gain up to $7.2 million in annual interest earnings. Because depositary agreements vary at each service center, IRS plans to decide whether to install equipment at other centers on a case-by-case basis.

IRS' primary consideration regarding the feasibility of a check-sorting system at Fresno was the 1-day gain in availability of tax deposits. GAO identified three additional factors IRS should consider in deciding whether to install check-sorting equipment at other IRS locations. First, check sorting will enable some service centers to make deposits later in the day, thus allowing IRS to deposit more money on the day it is received. Second, Federal Reserve Bank offices would no longer need to sort checks. Thus, they could make funds available to the Treasury sooner and become more competitive with the commercial depositaries now used by 6 of 10 IRS service centers. And, finally, check-processing costs will be reduced at those Federal Reserve offices receiving sorted IRS deposits. These reductions could help to offset the costs associated with IRS assuming the check-sorting function. (See p. 36.)

RECOMMENDATIONS TO THE COMMISSIONER OF INTERNAL REVENUE

GAO recommends that the Commissioner:

--Require taxpayers to send all payments accompanied by FTD cards, including those payments with corrected cards, directly to financial depositaries. (See p. 19.)

--Develop a system that will enable IRS to make more informed decisions on whether to impose penalties on individuals who are not sending FTD payments to authorized depositaries. (See p. 20.)

--Reduce the deposit time for field office tax receipts. (See p. 30.)

--Require that IRS' evaluations of whether to install check-sorting equipment at IRS service centers also consider (1) the potential interest earnings associated with extending deposit times, (2) the costs and benefits derived from increased use of

Federal Reserve offices as depositaries; and (3) the cost offsets to be gained through decreased check processing costs for Federal Reserve depositaries. (See p. 41.)

AGENCY COMMENTS AND GAO'S EVALUATION

In commenting on a draft of this report, IRS generally agreed with GAO's recommendations and outlined actions, either in process or planned, to implement them. GAO believes that these actions are responsive to its recommendations but questions whether the actions go far enough to reduce the delays associated with field office deposits. (See pp. 20,30, 41.)

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ABBREVIATIONS

BGFO	Bureau of Government Financial Operations
FICA	Federal Insurance Contributions Act
FTD	Federal Tax Deposit
FUTA	Federal Unemployment Tax Act
GAO	General Accounting Office
IRS	Internal Revenue Service
OMB	Office of Management and Budget
RCPC	Regional Check Processing Center

CHAPTER 1

INTRODUCTION

Recognizing that the timely deposit of receipts can increase interest income and can minimize the interest charges incurred on funds that must be borrowed to meet financial obligations, the Government has begun several initiatives to speed up the collection, processing, and deposit of cash receipts. Because taxes account for a significant portion of Federal revenues--over $631 billion in fiscal year 1982--the Department of the Treasury and the Internal Revenue Service (IRS) have been heavily involved in such efforts.

CASH MANAGEMENT IN GOVERNMENT

The Department of the Treasury, the Office of Management and Budget (OMB), individual agencies, and the Federal Reserve System are all involved in Government cash management. [1/]

Treasury is responsible for supervising and managing the Government's finances and for controlling the Government's cash. In meeting this responsibility, Treasury collects and disburses public funds, borrows cash, maintains a central cash accounting and reporting system, and establishes cash management policies and procedures to be followed by individual agencies.

OMB exercises general oversight control of the cash management operations and administers the Federal budget. It also provides guidance to agencies for estimating their cash outlays. Treasury uses these estimates in forecasting the Government's cash flow.

Individual agencies are, of course, the critical link in the Government's cash management because they are expected to carry out Treasury's cash management policies and procedures and to prepare the cash outlay estimates required by OMB.

The Federal Reserve's primary responsibility in this area is to formulate and implement this country's monetary policies. However, it also has other significant responsibilities, such as serving as the Government's fiscal agent or banker. As the Government's banker, the Federal Reserve maintains the checking account on which all Government checks are drawn. The Federal

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[1/] Our 1980 report "Electronic Funds Transfer--Its Potential For Improving Cash Management in Government" (FGMSD-80-80, Sept. 19, 1980), discussed the cash management roles of these Federal agencies in greater detail.

Reserve also issues and redeems public debt securities for the Treasury.

FASTER DEPOSIT OF REVENUES BENEFITS THE GOVERNMENT

Tax revenues are received by IRS or by financial institutions which provide tax deposit services under the Federal Tax Deposit (FTD) system. When IRS receives tax revenues, such as individual income tax payments, it deposits the money into Treasury accounts at a Federal Reserve bank or, depending on the geographic location, into accounts at authorized financial institutions which, in turn, transfer the funds to the Federal Reserve. In fiscal year 1982, IRS service centers and district offices received and deposited about $139.6 billion in tax revenues. Taxpayers deposited another $491.7 billion into Treasury tax and loan accounts at authorized financial institutions under the FTD system. These deposits included such tax receipts as withheld personal income tax, corporate income tax, and social security, excise, railroad retirement, and unemployment taxes.

A financial institution which elects to provide tax deposit services is provided with two options referred to by Treasury as (1) a note option account or (2) a remittance option account.

Under the note option, a depositary accepts taxes from taxpayers and retains the funds until they are withdrawn by the Treasury through the Federal Reserve System. Beginning one day after receipt and during the retention period, the depositary pays Treasury interest on the amount held at an interest rate of one quarter of a percent less than the Federal funds rate--the rate banks charge each other for lending or borrowing excess reserves. During fiscal year 1982, about 4,700 financial institutions participated under this option and received about 70 percent of all FTD deposits. Gross interest earnings totaled $1.4 billion at an average interest rate of 13 percent.

Under the remittance option, a depositary accepts taxes from taxpayers but does not retain the funds on an interest-bearing basis. Under this option, the depositary must notify the Federal Reserve bank each day of deposits received so that funds can be withdrawn one day after receipt. If notification is delayed, the depositary is assessed late fees. During fiscal year 1982, about 18 percent of total tax and loan deposits were received by about 9,800 financial institutions that participated in Treasury's program under the remittance option. Funds transferred to Treasury's account at the Federal Reserve are fully invested from the day of receipt until they are used to repay public debt or to make cash payments to others. The net earnings from all Federal Reserve investments are paid to the Treasury.

Whichever option a depositary chooses, Treasury pays fees to the financial institution for performing certain services such as servicing the tax and loan accounts, accepting Federal tax deposits, and issuing and redeeming U.S. savings bonds. Tax and loan account fees totaled $27.7 million in fiscal year 1982.

The faster tax revenues are deposited, the more interest earnings are increased. When evaluating the benefits of faster deposit proposals, Treasury instructs Federal agencies to use the prevailing interest rate for balances held in Treasury tax and loan accounts under the note option. Although not all Government receipts enter tax and loan accounts and earn the note option rate, Treasury believes it is the most representative measure of the benefits of faster tax revenue deposits. Treasury officials explained that funds deposited in other accounts can be thought of as deferring the need to withdraw funds from note option accounts, and therefore can be considered, indirectly, as earning the note option rate.

RECENT CASH MANAGEMENT INITIATIVES

With the high cost of borrowing as the impetus for better management of the Government's resources, the need for improving Federal cash management is receiving greater attention. [2/] In 1977, President Carter directed his reorganization staff and the Treasury Department to review cash management policies and practices with the objective of identifying ways to apply modern cash management techniques to the Government's cash flows. The resulting report, issued in August 1980, identified 80 improvements that were initiated in over 20 agencies, which the staff estimated would result in interest savings of more than $450 million a year. In October 1982, OMB required each executive agency to designate a cash management officer to institute an aggressive program to strengthen cash management practices. The cash management officer within IRS is an Acting Assistant Commissioner.

Cash management initiatives in the tax area

In the last several years Treasury and IRS have taken several steps to expedite the receipt and deposit of tax revenues. For example, effective January 1, 1981, IRS established more stringent time frames for depositing payments of Federal withholding and social security taxes. By reducing the time between required deposits from 7 days to 3 days for tax-

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[2/]See appendix II for a listing of recent reports we have issued on improving cash management activities in the Government.

payers with tax liabilities of $3,000 or more, IRS accelerated its cash flow. IRS estimated that through this change, it earned an additional $89 million in interest in fiscal year 1981.

Effective January 1, 1982, IRS reduced from 72 hours to 48 hours the time it allows IRS service centers to process and deposit tax receipts of less than $10,000. At the same time it required service centers to deposit receipts of $10,000 and over within 24 hours. IRS estimated that these improvements resulted in additional interest earnings of $33.8 million during the first 7 months of 1982. Beginning October 1, 1982, IRS required service centers to deposit all receipts within 24 hours--a change IRS estimates will result in $31.5 million in additional interest earnings.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine whether IRS could improve its processing and depositing of tax revenues in order to expedite the availability of funds to the Treasury. We did our work because of congressional interest in improving the cash management practices of Federal agencies.

We reviewed and evaluated IRS' policies, procedures, and practices for processing and depositing tax remittances. We interviewed IRS national, regional, service center, and district office personnel who are involved directly and indirectly with processing tax remittances. We also reviewed internal audit reports and discussed internal audit activities with IRS personnel.

We spoke with officials in the Treasury Department's Bureau of Government Financial Operations (BGFO) which is responsible for establishing and monitoring agreements with financial institutions who act as depositaries for the Government. We also spoke with officials of the Federal Reserve which acts as the depositary for 4 of IRS' 10 service centers.

Locations where we did our work

We performed work at the following locations:

--IRS headquarters, Washington, D.C.;

--IRS service centers in Andover, Massachusetts, and Covington, Kentucky;

--IRS district offices in the Central and North Atlantic Regions;

--BGFO headquarters, Department of the Treasury, Washington, D.C.;

--the Board of Governors of the Federal Reserve System, Washington, D.C.;

--the Federal Reserve Bank of Boston; and

--the Federal Reserve Bank of Cleveland, Cincinnati Branch.

The IRS offices selected for review were chosen to provide adequate geographical coverage and after considering available GAO resources. The other agencies were selected because their activities were within the scope of the issues under consideration.

Our work was performed in accordance with generally accepted government auditing standards.

Sampling procedures

In the course of our review, we selected and reviewed three random samples. First, we sampled FTD payments which were received and deposited by IRS' Cincinnati and Andover Service Centers. Second, we sampled collections made by field office revenue officers [3]/ in two of the seven IRS regions. And third, we sampled advance payments on audit assessments made to field office revenue agents in one IRS region. For each sample, we used the most recent data available. When computing interest losses associated with delays of tax revenue deposits, we used the Treasury tax and loan rate applicable for the time period sampled. Appendix VI describes our sampling methodology in more detail.

FTD sample

The objective of taking the FTD sample was to determine why payments were being sent to IRS instead of to authorized financial depositaries, to determine how long it took from the time IRS received the payments until they were deposited, and to estimate any interest foregone by the Government. We examined

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[3]/In our report we collectively refer to revenue officers and revenue representatives as revenue officers. While there are differences in responsibilities, both collect delinquent taxes and both were included in our sample. Similarly, we also collectively refer to revenue agents and tax auditors as revenue agents. Both examine tax returns, assess additional taxes if necessary, and accept payments.

1,457 payments, stratified by payment size and tax class, which were sent to IRS' Andover and Cincinnati Service Centers in payment for a tax liability due during fiscal year 1981. We extracted our sample from a listing which was provided by IRS and which contained all payments of the type that could have been submitted to authorized depositaries, but which were processed and deposited by the two service centers during that period. Although our results are statistically applicable to only the Andover and Cincinnati Service Centers, we believe, and IRS officials agreed, that it is reasonable to assume that tests at IRS' other eight service centers would show comparable results because they also receive such payments and are required to follow the same processing procedures.

Revenue officer sample

The objective of our revenue officer sample was to determine the amount collected by revenue officers in IRS field offices, the number of days it took IRS district offices to receive and deposit the collections, and to estimate any foregone interest. We defined a field office as an IRS office, other than a district office or service center, which receives tax revenues. We examined 1,544 collections received during calendar year 1981 by officers in field offices of IRS' North Atlantic and Central Regions.

Revenue agent sample

The objective of our revenue agent sample was to determine the amounts paid to revenue agents in IRS field offices, the number of days it took IRS district offices to receive and deposit the payments, and to estimate any foregone interest. Our sample was drawn from a listing of payments supplied by IRS at our request. IRS extracted the list from files maintained at the two service centers (Andover, Massachusetts, and Brookhaven, New York) which serve IRS' North Atlantic Region. We examined 338 payments received during April 1981 through March 1982 by agents in the region. The choice of this particular 12-month period was dictated by IRS' data base. The data base is continually updated to include the most recent 12 months of activity, and the time frame we selected was the most recent 12-month period available at the time we did our work. We were not able to include payments received by agents in IRS' Central Region because of incomplete IRS data.

CHAPTER 2

GREATER USE OF THE FEDERAL TAX DEPOSIT SYSTEM WOULD INCREASE INTEREST EARNINGS

The Federal Tax Deposit (FTD) system was established to expedite the availability of tax receipts to the Treasury by requiring that certain tax payments be deposited into Treasury accounts at authorized financial depositaries. However, because some taxpayers send their payments to IRS instead of to financial depositaries, the Government annually loses the opportunity to earn millions in interest. We estimate that, in fiscal year 1981, the foregone interest associated with IRS processing about $1.3 billion in payments that were sent to the two service centers included in our review instead of to financial depositaries was about $2.3 million. Inasmuch as other IRS locations received payments and were required to follow similar processing procedures, we believe foregone interest during fiscal year 1981 could have exceeded $10 million on the $9.2 billion that all 10 IRS service centers received.

Taxpayers send payments to IRS rather than to a financial depositary when, for example, they misplace or do not receive the FTD deposit cards necessary to send payments directly to a financial depositary. Also, BGFO and IRS officials believe that some taxpayers send payments to IRS because the time it takes to process the payment delays the withdrawal of funds from their bank accounts.

IRS has taken action to reduce the time it takes to process tax receipts and has plans to tighten its controls over the process that supplies FTD cards to taxpayers. These steps should enable IRS to reduce the foregone interest that results from IRS receiving and depositing these payments. We believe, however, that additional steps can be taken to further reduce the number and amount of payments made to IRS instead of to financial depositaries.

THE FTD SYSTEM IS DESIGNED TO MAKE TAX PAYMENTS READILY AVAILABLE TO THE GOVERNMENT

Since its inception in 1968, the FTD system has been the vehicle by which approximately 80 percent of all tax revenues reach the Treasury. In fiscal year 1982, IRS collected over $631 billion in tax revenues of which some $492 billion was collected through the FTD system.

Source of FTD Revenues
Fiscal Year 1982

Type of Tax	Amount
	(billions)
Social security (note a) and Federal Withholding	$403.2
Corporate income	55.4
Employment (note b)	3.5
Excise	26.3
Miscellaneous other taxes	3.3
Total	$491.7

a/Taxes paid under the Federal Insurance Contributions Act (FICA).

b/Taxes paid under the Federal Unemployment Tax Act (FUTA).

How the FTD system works

Under the FTD system, taxpayers make deposits directly into Treasury tax and loan accounts at authorized commercial banks or Federal Reserve Banks. Presently over 14,000 banks are authorized to accept and process FTD payments.

The number of FTD deposits a taxpayer makes depends on the type of tax and the amount owed. For example, taxpayers are required to deposit Federal withholding and FICA taxes as often as 8 times a month if during each of these periods their total liability is $3,000 or more. In contrast, FTD deposits of corporate income taxes and Federal unemployment taxes are made on a quarterly basis.

IRS requires taxpayers to use FTD cards when making payments. Each card is preprinted with the taxpayer's name and address, an identification number, the type of tax being paid, and the tax period. The only entries required by a taxpayer are the amount of money being deposited and the name of the depositary. After the deposits are made, the depositaries forward the cards to IRS where they are used to credit taxpayer accounts for the amount of the payment and to classify revenues according to type of tax. Appendix IV shows an FTD card, including IRS's instructions to taxpayers.

Depositaries are required to post FTD payments to Treasury tax and loan accounts at the end of each banking day. At the same time, depositaries are required to notify IRS and the Federal Reserve of the total dollar amount and number of FTD payments received. On the following day, the Federal Reserve notifies Treasury of the gross amount of deposits posted to tax

and loan accounts. A flow chart of the FTD system is shown in appendix V.

THE FTD SYSTEM COULD BE USED BY MORE TAXPAYERS

IRS generally requires taxpayers to send FTD payments to an authorized depositary; however, some taxpayers send their payments to IRS instead. In some instances, taxpayers send the payments to IRS because IRS instructs them to do so. In other instances, taxpayers could be sending the payments to IRS in order to delay the fund withdrawal from their bank accounts that results from the time it takes IRS to process and deposit the payments. The reasons taxpayers send payments to IRS instead of to depositaries are difficult to determine but because they do, the Government foregoes the opportunity to earn a significant amount of interest.

About $9.2 billion was sent to IRS instead of to financial depositaries in fiscal year 1981

IRS estimates that the funds sent to it instead of to financial depositaries amount to less than 2 percent of the revenue that is collectible under the FTD system. Even so, the dollar value of the payments directly received by IRS is sizable. During fiscal year 1981, IRS processed and deposited over $9.2 billion. The following table identifies the amounts and number of payments received by each IRS service center. It includes FTD-type payments for Federal withholding, FICA, corporate income, and FUTA taxes. These taxes make up 94 percent of the tax revenues that flow through the FTD system.

Service Center (note a)	Volume	Amount (millions)
Atlanta	187,560	$ 518.0
Andover	123,299	734.9
Austin	175,727	1,137.8
Brookhaven	183,119	1,210.3
Cincinnati	114,776	588.4
Kansas City	152,147	898.5
Fresno	312,453	1,895.7
Memphis	128,817	525.9
Ogden	195,335	818.6
Philadelphia	157,566	904.2
Total	1,730,799	$9,232.3

a/Most FTD-type payments which are sent to IRS are received, processed, and deposited by IRS service centers. However, taxpayers also send a small number of payments to IRS district offices. These latter payments are also included in this table.

The reasons why payments are sent to IRS instead of to financial depositaries are difficult to determine

IRS generally requires taxpayers to send FTD payments to an authorized depositary. However, there are two exceptions. First, if the taxpayer's name or identification number on an FTD card is erroneous or missing, IRS instructs taxpayers to write in the correct information and forward the card and payment to an IRS service center. Second, IRS instructs taxpayers who lose, run out, or never receive FTD cards to send their payments to IRS.

We reviewed documentation in IRS' files in an attempt to determine whether taxpayers who sent the sampled payments to the Andover and Cincinnati Service Centers instead of to financial depositaries were complying with IRS' instructions. We could not determine why a little over half the payments were sent to IRS, primarily because IRS does not require taxpayers to state why they are not using the FTD system. Most of the reasons that were provided by taxpayers related to not having an FTD card. Reasons for not having a card included (1) cards had been requested but not yet received, (2) the taxpayer ran out of cards and more cards were needed, or (3) the cards had been lost. The following table shows the results of our analysis.

Reasons Why Payments Were Sent
To Two IRS Service Centers

Reason Given by Taxpayer	Percent
Reason could not be determined	54.3
No FTD card	42.1
Change needed on card (note a)	
Changes which required that the FTD payment be sent to IRS	1.5
Other changes which did not require that the payment be sent to IRS	1.9
Other miscellaneous reasons	4.9
Total	b/104.7

a/Some card changes require that the payment be sent to IRS while others do not. Card changes involving a taxpayer's name or identification number require sending the card and payment to an IRS office. Payments with card changes involving a taxpayer's address or the tax period of the payment are to be sent to a depositary.

b/Percentages do not total to 100 because taxpayers sometimes stated more than one reason.

Past studies by IRS and BGFO concluded that some payments are also sent to service centers and district offices by taxpayers who seek to optimize their cash flow. Taxpayers gain additional use of their money because the fund withdrawal from their bank accounts is delayed by the time it takes IRS to process and deposit the payment.

We attempted to determine whether some taxpayers sent IRS payments in order to take advantage of the several days it took to process and deposit these payments. To do this, we identified and reviewed IRS' files for those taxpayers who sent more than one payment to the Andover and Cincinnati Service Centers during fiscal year 1981. Of the $1.3 billion in payments processed by the two service centers, almost $1.1 billion, or about 80 percent of the total came from taxpayers who sent more than one payment to IRS. On the average, taxpayers who sent more than one payment sent about four payments over the year's time. In one instance, a taxpayer sent 57 payments to IRS totaling $733,202.

We cannot conclude that every taxpayer who sent in more than one payment was attempting to optimize their cash flow. Some of these payments may well have come from taxpayers who had a continuing problem obtaining FTD cards. Nevertheless, the

high percentage of payments coming from the same taxpayers raises questions regarding why.

Interest is foregone when payments are sent to IRS

Even though IRS expedites the deposit of tax receipts, the Government foregoes the opportunity to earn interest when payments are sent to IRS instead of to FTD system depositaries. This is because, generally, FTD payments that are sent to depositaries enter directly into Treasury tax and loan accounts and earn interest or are promptly remitted to the Federal Reserve, while payments that are sent to IRS must first be processed before they can be deposited.

When IRS receives a payment, it processes the payment according to established standards for processing and depositing all tax remittances. Except during periods of high volume, IRS requires that remittances be deposited within 72 hours or less. [1] In meeting this requirement only working days are counted.

The current deposit requirements for service centers and district offices are as follows:

Location remittance received	Remittance amount	Allowable time between receipt and deposit (note a)
Service Center	all remittances	24 hours
District Office	$5,000 or more	24 hours
District Office	less than $5,000	72 hours

a/These standards are relaxed when IRS' volume becomes heavy. For example, during January, service centers are allowed up to 72 hours to process and deposit tax remittances.

To determine how much interest was foregone during fiscal year 1981, we measured the time it took IRS to deposit 1,457 payments received at the Andover and Cincinnati service centers during that period. The following table shows our results.

1/Although Treasury's Fiscal Requirement Manual (TFRM 6-8030.40) requires daily deposits of receipts over $1,000, IRS has requested a waiver from BGFO on this requirement.

	Average value of payment (note a)	Average days from receipt to deposit	Average foregone interest per payment (note b)
Andover	$7,480	6.9	$14.41
Cincinnati	6,306	6.4	11.10

a/Includes payments received and processed by the 11 IRS district offices that send tax information to the Andover and Cincinnati Service Centers. Also, we excluded Federal withholding and FICA payments of less than $500 and FUTA payments of $100 or less from our sample because IRS instructs taxpayers with liabilities under these thresholds to file their payments with their tax return. Such payments accounted for about 26 percent of the total volume of payments received by IRS but only about one percent of the dollar amount and were not used in our projections of foregone interest. A more detailed explanation of our methodology and results is presented in appendix VI.

b/We calculated foregone interest according to the formula:

$$\text{avg. foregone interest per payment} = \frac{\text{the sum of the payment amounts}}{\text{no. of payments}} \times \text{Treasury tax and loan rate} \times \frac{\text{days from receipt to deposit}}{365 \text{ days}}$$

Our measure of the number of days it took IRS to process and deposit these payments is not the same as IRS' measure and therefore does not necessarily mean that IRS failed to meet its current remittance processing standards. First, IRS counts only work days in assessing whether service centers meet their standard; we counted calendar days in making our computations. Thus, by our measure, a payment received on Thursday and deposited on Monday incurred 4 days of foregone interest; however, by IRS' standard, the payment was processed and deposited within 48 working hours. Second, during fiscal year 1981, IRS' deposit standards were less stringent than current standards. During nonpeak periods, service centers were allowed up to 72 hours to make deposits. And finally, because our sample was drawn randomly from payments received throughout the fiscal year, some payments were received during peak volume periods when IRS allowed service centers up to 15 days (from April 15 to April 30) to process and deposit tax remitances. Thus, although our measure cannot be used to determine how well IRS met its processing standards, it does represent a valid estimate of the interest foregone because these payments were not sent directly to depositaries.

On the basis of the $1.3 billion in payments that were sent to the Andover and Cincinnati Service Centers instead of through

the FTD System during fiscal year 1981, we estimate that foregone interest totaled $2.3 million for the two centers. We cannot statistically project our results to the $9.2 billion processed by all IRS service centers. However, because all IRS service centers are required to follow standard procedures to process and deposit tax remittances, we believe foregone interest Service-wide could have exceeded $10 million.

Although sending more FTD payments to authorized depositaries would save interest, there would also be some increased administrative costs. For example, depositaries currently charge BGFO $.50 to process each FTD payment, and IRS estimates that it spends an additional $.10 to process each card received from depositaries. However, since it costs about $.47 to process the payments received at an IRS service center, the net additional cost to process an FTD payment and card sent to a depositary is about $.13. Had the payments processed at the Andover and Cincinnati Service Centers during fiscal year 1981 been sent to financial depositaries, we estimate that the additional administrative costs to Treasury would have been about $31,000, which would be more than offset by our projected interest earnings of $2.3 million at these locations.

IRS HAS TAKEN AND PLANS MORE POSITIVE STEPS TO REDUCE THE FOREGONE INTEREST ON PAYMENTS IT RECEIVES

IRS has already taken or plans to take several steps which should reduce the foregone interest associated with processing the payments it receives. In January and again in October 1982, IRS reduced the time it allows service centers to process and deposit tax remittances. It also plans to establish greater controls over the FTD card mailout function.

IRS has reduced the time it takes to deposit tax remittances

Prior to January 1982, IRS allowed service centers up to 72 hours to process and deposit tax remittances of less than $25,000 and up to 24 hours to process remittances of $25,000 and over. Effective January 1, 1982, IRS reduced the time it normally allowed for processing and depositing tax remittances from 72 hours to 48 hours. In addition, IRS reduced the dollar criteria from $25,000 to $10,000 for depositing tax remittances within 24 hours after receipt.

IRS estimated that reducing its deposit cycle to 48 hours and lowering its threshold for 24-hour deposits from $25,000 to $10,000 resulted in interest earnings of $33.8 million during the first 7 months of 1982. Effective October 1, 1982, IRS instructed service centers to deposit all remittances within 24 hours--a change IRS estimates will result in $31.5 million in

additional interest earnings. We did not attempt to validate these figures but we agree that earnings should increase if IRS meets its new deposit cycle standards.

Reducing the deposit cycle time will reduce but not eliminate the foregone interest associated with IRS' processing the FTD-type payments it receives. Our sample of payments was processed by IRS during fiscal year 1981 which was prior to the time IRS established the new deposit cycles. At that time IRS expedited the deposit of payments $25,000 or greater. We estimate that the foregone interest associated with processing these payments (about $2.3 million) would have been reduced by about $147,000 if the two centers processed payments $10,000 and over in the same time they processed payments of $25,000 and over. Even if IRS deposited all of the payments it receives within 24 hours, these payments would still be deposited later than if the payments were sent directly to a depositary.

IRS plans to improve the system that supplies FTD cards to taxpayers

Our analysis of why payments were sent to two IRS service centers rather than through the FTD system showed that about 42 percent were sent because the taxpayer stated he/she lacked the FTD card necessary to send the payment to an authorized depositary. We could not determine specifically from IRS' files why taxpayers did not have FTD cards. However, past Treasury studies have identified several possible causes including IRS not correctly determining taxpayer needs, cards not mailed on time, cards not delivered, or taxpayers neglecting to request cards when they ran out. IRS plans to reduce or eliminate some of these problems by assuming responsibility for supplying FTD cards to taxpayers.

IRS currently relies on BGFO to print and mail FTD cards to taxpayers. Prior to each mailout, IRS provides BGFO regional disbursing centers with the information to be printed on each card. The number of cards mailed to each taxpayer is determined by the taxpayer's previous filing history and payment record, or in the case of first-time payers, by information provided by taxpayers when they first request cards. Generally, regional disbursing centers mail cards quarterly. However, supplemental mailouts are made more frequently based on taxpayer requests for cards that are funneled through IRS service centers.

IRS officials believe that problems with the FTD card mailout process are a key reason why taxpayers do not have FTD cards. During fiscal year 1980 about 126.3 million FTD cards were mailed out to taxpayers and about 56.2 million were returned with payments. In some cases cards are returned to the service centers as undeliverable. Some are not delivered

because of incomplete addresses. Others are simply returned by the Postal Service without an explanation as to why they were not delivered. IRS officials also stated in a June 1982 discussion paper that supplemental mailings are not always made on a timely basis. The estimated turn around time is 3 weeks to respond to a request for additional cards. The delay causes taxpayers with payments due during that period to send them to IRS.

The Department of the Treasury has been studying the FTD card mailout system since October 1980. In a February 1981 report, study group members endorsed a plan that would test the feasibility of turning responsibility for the mailout function over to IRS. Under the plan, IRS would purchase equipment that would eliminate the need for BGFO to prepare and mail FTD cards. IRS began testing the equipment in September 1982 and plans to assume responsibility for the FTD card mailout process by January 1984.

IRS officials believe that acquiring responsibility for the mailout process will resolve a lot of the problems currently associated with providing FTD cards to taxpayers. For example, IRS plans to mail cards annually, rather than quarterly. They predict taxpayers will be less likely to run out of cards with a year's supply on hand. Having direct responsibility for card mailouts, they believe, will also cut down on the response time for providing additional cards should a taxpayer's supply be exhausted. IRS also expects to be able to more quickly update taxpayer information that is printed on the cards. For these reasons, they believe the need for taxpayers to send FTD payments to IRS will be greatly reduced.

It is too soon to determine how successful IRS will be. We agree, however, that giving IRS control over the mailout function should alleviate some of the problems associated with the current process, especially the need for faster responses to taxpayers' requests for cards. We doubt, however, that it will completely keep taxpayers from sending payments to IRS. For example, those taxpayers who send payments to optimize their cash flow or who fail to request cards will continue to send payments to IRS. We believe, therefore, that IRS needs to take additional steps to ensure that FTD payments are channeled to financial depositaries.

MORE CAN BE DONE TO INCREASE DEPOSITS INTO THE FTD SYSTEM

We believe IRS could channel more FTD payments to authorized depositaries. As a first step, IRS needs to instruct taxpayers to send all FTD payments to a depositary even though some of the information on taxpayers' cards may need to be changed. Second, IRS needs to develop a system to identify taxpayers who

are sending payments to an IRS office without good cause. Presently, IRS has the authority to penalize taxpayers who do not send timely payments to an authorized depositary, but it does not impose penalties because it cannot tell whether or not taxpayers are complying with IRS instructions.

FTD cards with changes can be sent to depositaries

If the taxpayer's name and/or identification number, which is preprinted on an FTD card, is erroneous, incomplete, or missing, IRS instructs the taxpayer to make the necessary correction and to send the card plus the payment to an IRS service center. Such payments made up about 1.5 percent of the payments in our sample.

Another 1.9 percent of the sampled payments involved changes to a taxpayer's address or the tax period of the payment. Although taxpayers are not required to send these payments to IRS, we believe some taxpayers did so because they did not carefully read or were confused by IRS' instructions concerning where to send cards needing changes.

IRS officials said some taxpayers already send corrected cards to depositaries even though IRS instructions require otherwise. Since these cards are accepted by depositaries and processed by IRS service centers, the IRS officials with whom we spoke saw no problem with requiring that all FTD cards, including those with changes, be channeled to depositaries. Establishing this requirement would also eliminate the potential confusion over where changed cards should be sent.

IRS needs to develop a system to identify taxpayers who do not need to send payments to an IRS office

Current IRS regulations require taxpayers to make FTD payments to an authorized depositary by the payment due date. Section 6656 of the Internal Revenue Code imposes a 5 percent penalty when taxpayers fail to deposit taxes in an authorized depositary unless the failure is due to reasonable cause and not willful neglect. Because of the difficulty in determining whether a taxpayer is complying with IRS instructions, IRS has chosen not to apply the penalty when taxpayers send FTD payments to an IRS office as long as IRS receives the payment by the payment due date. IRS instructions contained on FTD cards (see app. VII) and in IRS Circular E (Publication 15) direct taxpayers to send payments to IRS when cards are not available or when they contain certain incorrectly preprinted information.

IRS officials explained that it is extremely difficult to distinguish between taxpayers who are properly following IRS'

instructions in sending payments to IRS as a result of unavailable or misprinted cards, and those taxpayers who should be sending payments to depositaries. IRS files we reviewed showed that taxpayers did not provide a reason for sending about half the payments to two IRS service centers. Moreover, even when a reason was given, such as cards not received, IRS generally could not determine if the reason was valid because it could not be sure that the taxpayer was sent FTD cards.

In the few instances where IRS receives an FTD payment and can determine that it should have been sent to a depositary, it advises the taxpayer to send future payments to a depositary. Based on the payments we sampled, we estimate that about 7.2 percent of the payments sent to the Andover and Cincinnati Service Centers were accompanied by FTD cards which would have been accepted by a financial depositary. When this occurs, IRS procedures require that a letter, called a 199-C letter, be sent to advise the taxpayer that such payments are to be sent to a financial depositary and not IRS. During fiscal year 1981, IRS service centers prepared and mailed over 76,000 of these letters.

Unfortunately, IRS does not know whether 199-C letters are effective. Although IRS records how many letters it sends, it does not monitor who the letters are sent to or if the recipient subsequently sent another payment card to IRS. Several IRS officials we talked to questioned the effectiveness of the letters because of the lack of followup and because taxpayers are not penalized if they choose to disregard the letter.

Our analysis of the response to the 199-C letters sent to taxpayers in our sample supports the concern expressed by IRS officials about the effectiveness of these letters. The 788 payments we reviewed at the Cincinnati Service Center included a total of 32 different taxpayers who were sent 199-C letters. (We could not make a similar analysis at the Andover Service Center because records were not available to identify which taxpayers were sent 199-C letters.) We reviewed IRS' files to determine whether these taxpayers sent a subsequent payment to IRS. Of the 32, 10 sent subsequent payments to an IRS office. Over a span of 5 months and after being sent several 199-C letters, one taxpayer sent IRS 26 FTD payments totaling about $355,000.

To effectively manage the process of ensuring that payments are sent to FTD system depositaries when appropriate, IRS needs to develop a system for identifying taxpayers who are not complying with IRS' requirements. When IRS assumes responsibility for providing FTD cards to taxpayers, it will have the potential to determine who is sent cards and when the cards are sent. In

those instances where cards are provided in time to send a payment to a depositary and the payment is sent to IRS, the taxpayer could be assessed a penalty under section 6656 of the Internal Revenue Code.

In considering the appropriateness of a penalty, IRS may wish to concentrate on those taxpayers who continually send payments to an IRS office. For example, we found that about 81 percent of the payments received by the Andover and Cincinnati Service Centers during fiscal year 1981 came from taxpayers who sent more than one payment. In such instances, IRS could send taxpayers a letter similar to a 199-C letter on receipt of the first payment. Then, if IRS developed the means to identify taxpayers who sent more than one payment, it could use this information to determine whether penalties should be imposed.

CONCLUSIONS

The Government is losing the opportunity to earn millions of dollars in interest because some taxpayers send payments to IRS instead of to authorized financial depositaries. Interest is foregone because it takes IRS several days to process and deposit these payments whereas the Government generally begins accruing interest one day after payments have been received by depositaries. IRS is reluctant to enforce its requirement that FTD payments be sent to depositaries because it is difficult to distinguish between taxpayers who are following IRS' instructions and those who do not understand the process or seek to abuse it. Steps IRS has taken or plans to take to reduce foregone interest include reducing the time it takes to process and deposit tax remittances and tightening controls over the FTD card mailout process.

These are positive steps and should produce additional interest earnings; however, we believe IRS needs to take additional steps to reduce the number of payments being sent to IRS' offices instead of to authorized depositaries. In particular, IRS should instruct taxpayers to correct any preprinted information and use the corrected card to make payments to depositaries. Also, by establishing tighter controls over the process that supplies FTD cards to taxpayers and by identifying taxpayers who continually send payments to IRS, the Service will be in a better position to determine whether penalties should be imposed.

RECOMMENDATIONS TO THE COMMISSIONER OF INTERNAL REVENUE

We recommend that the Commissioner:

--Require taxpayers to send all payments accompanied by FTD cards, including those payments with corrected cards, directly to financial depositaries.

--Develop a system that will enable IRS to make more informed decisions on whether to impose penalties on individuals who are not sending FTD payments to authorized depositaries.

AGENCY COMMENTS AND OUR EVALUATION

The Department of the Treasury's Assistant Secretary (Administration) and the Commissioner of Internal Revenue jointly commented on a draft of this report by letter dated June 20, 1983. (See app. I.) IRS agreed with our recommendations, adding that it will be in a better position to enforce regulations which require FTD payments to be paid directly to authorized depositaries when it adopts a machine scannable FTD form and assumes responsibility for mailing out FTD forms in January 1984. IRS stated that, in the meantime, it is working with the Office of the Fiscal Assistant Secretary, Department of the Treasury, and BGFO in an effort to identify taxpayers and/or their representatives who repeatedly bypass the FTD system and to implement corrective action in those instances.

We believe that the actions proposed by IRS are reasonable and, when implemented, will result in the FTD system being used to a greater extent than it presently is.

CHAPTER 3

FASTER DEPOSIT OF FIELD OFFICE TAX RECEIPTS WOULD IMPROVE IRS CASH MANAGEMENT

Current IRS procedures require field offices to forward their receipts to district offices for processing and deposit. We estimated that over a 1-year period, the time delays associated with sending field office receipts to district offices in IRS' North Atlantic and Central Regions resulted in foregone interest of $1.3 million. There are alternatives that could expedite the deposit of field office collections.

TAX RECEIPTS AT FIELD OFFICES ARE GENERALLY MAILED TO DISTRICT OFFICES FOR DEPOSIT

Field office officials mail tax receipts to IRS district offices where the checks and corresponding documents are processed, reviewed, numbered, and used to credit taxpayers' accounts before payments are deposited in a financial institution.

IRS revenue officers, revenue agents, and other personnel located in district offices and field offices receive tax revenues directly from taxpayers. Each of the 7 IRS regions has from 6 to 11 district offices and each district office has several field offices. As of June 1982, there were 694 IRS field offices, including area, zone, and local offices and district office satellites. Numbers of staff at each field office vary; for example, permanent employees at field offices in the North Atlantic Region varied from one at St. Johnsbury, Vermont, to 286 at Mineola, New York.

IRS field offices generally receive tax payments in two ways. For example, tax payments can be received by revenue agents who audit taxpayer records to determine whether taxes were correctly reported. Following the audit, the examiner prepares a report identifying the tax due, if any. At this point the taxpayer may make an advance payment on any taxes, penalties, or interest that are due.

Payments for delinquent taxes are received by revenue officers. Revenue officers contact taxpayers to secure delinquent returns and collect delinquent taxes, if any, after notices have been sent by IRS informing taxpayers of their delinquency. The officer may collect taxes due by setting up a payment plan or taking some enforcement action, including in extreme cases, seizing salaries or property.

Advance tax payments and delinquent tax payments received by field office personnel are mailed along with related documentation to IRS district offices daily. IRS requires the documentation and payments to be mailed at the close of business each day or as soon as possible on the next business day.

When a remittance for more than $500,000 is received in a field office, special procedures, such as hand-carrying, are used to transmit it to the district office. At two field offices we visited (Springfield, Massachusetts, and Portland, Maine) the procedure consisted of having someone drive these checks to the district office rather than mailing them.

IRS does not keep statistics on the amount of revenue received by its field offices. However, by sampling the vouchers on which revenue agents post payments and the daily collection reports prepared by revenue officers, we estimated that the following amounts were received in two IRS regions over a 1-year period.

IRS region	Number of field offices	Source of revenue	Estimated receipts
			(millions)
North Atlantic	98	advance payments (note a)	$ 29.6
		payments on delinquencies (note b)	$374.8
Central	97	advance payments	(c)
		payments on delinquencies (note b)	$233.6

a/For the period April 1981 to March 1982.

b/For calendar year 1981.

c/An incomplete IRS data base prevented us from estimating advance payments to revenue agents in the Central Region.

Processing at district offices

At the district offices, taxpayers' accounts are credited to reflect payments, and remittances are prepared for deposit. All remittances and documents are dated and batched. Taxpayers'

accounts are credited by entering each transaction into a computer terminal. Each remittance and document is stamped with a sequence number generated by the computer to provide an audit trail. Remittances and documents are then returned to a teller who prepares the remittances for deposit and the documents for shipment to an IRS service center.

IRS requires that remittances of less than $5,000 be deposited no later than 72 hours after the district office receives them (excluding weekends and holidays). Remittances of $5,000 or more must be deposited no later than 24 hours after receipt by the district office.

FASTER DEPOSITS OF FIELD OFFICE TAX RECEIPTS WOULD SPEED AVAILABILITY OF FUNDS

Mailing remittances to district offices and processing documents before depositing the remittances results in foregone interest and delays availability of the funds to the Treasury. There are at least two ways IRS could speed up field office deposits. First, IRS could authorize field offices to deposit tax receipts locally; or second, field offices could mail tax receipts to designated "lockboxes" which are set up to minimize mail and processing time. Each alternative has advantages and disadvantages but both could reduce the considerable amount of interest being foregone under the present approach.

Delays and foregone interest exist under the present system

Using our sample of payment posting vouchers and reports on daily collection activities, we measured how long it took district offices to receive and deposit field office tax receipts. For advance payments reported by revenue agents on payment posting vouchers, we determined that the average delay between collection and deposit was almost 7 days. For delinquent tax payments, we determined that the time between the collection of a delinquent payment in the field and its deposit by a district office was about 5 days.

We then computed the interest costs associated with the delays and projected the costs to our estimates of field office tax receipts in the North Atlantic and Central Regions. As shown in the following table, we estimate that foregone interest in these two IRS regions totaled about $1.3 million.

Delays and Foregone Interest Resulting From Depositing Field Office Tax Receipts at District Offices

IRS region	Type of tax receipt	Average delay in days	Estimated receipts	Estimated interest foregone (note a)
			(millions)	
North Atlantic	advance payments	6.67	$29.6	$ 66,000
	delinquent payments	b/5.03	374.8	821,000
Central	delinquent payments	b/4.90	233.7	455,000

a/In general, estimated interest foregone was computed as:

$$\text{interest foregone} = \text{estimated receipts} \times \text{interest rate} \times \frac{\text{days delayed}}{365}$$

The actual interest rate used in the computations varied according to the individual tax receipt dates in our samples; however, the average rate during the period our samples were taken (January 1981 through March 1982) was 15.7 percent. Appendix VI explains our computations in more detail.

b/Information was not readily available on how long it took district offices to process and deposit delinquent tax payments that were received from field offices. We allowed one day for this activity. We believe one day is a conservative estimate based on IRS' remittance processing standards which allow district offices from 1 to 3 days to process and deposit these remittances.

Direct deposit of field office tax receipts is one way to speed deposits

Direct deposit of tax receipts by field office personnel would reduce the delays between receipt and deposit of remittances. Receipts could be deposited by either the revenue officers and agents who receive the monies or by one individual designated to deposit all daily receipts. Presently, officials who receive tax payments usually mail them to the district offices with the necessary documents on the morning of the first workday after they are received. If receipts were deposited locally instead of mailed, foregone interest associated with

mail time and processing at the district office would be reduced.

Administrative considerations, however, might prevent IRS from giving all field offices a direct deposit authority. First, IRS would need to establish procedural safeguards to ensure that taxpayers receive credit for deposited payments and that payments are in fact deposited. The cost to establish these safeguards might offset interest earnings at smaller offices. Also, field offices would incur certain administrative costs in establishing a deposit activity. Finally, BGFO officials state that their resources to negotiate the necessary depositary arrangements with local banks are extremely limited. As a result, if IRS chooses to allow field offices to deposit receipts, it may wish to do so only at larger offices.

Major benefit--crediting Treasury accounts with receipts sooner

Depositing tax receipts locally could allow revenues to be credited to a Treasury account within 1 workday of receipt, thereby accelerating these deposits by 4 to 6 days over the present method. If all field offices in IRS' North Atlantic Region deposited tax receipts on the day following receipt, we estimate that over a 1-year period about $715,000 ($54,000 from advance payments and $661,000 from delinquent tax collections) in interest could have been earned in the North Atlantic Region. Another $355,000 could have been earned in the Central Region from delinquent tax collections.

It is not likely that all field offices could cost-effectively deposit tax receipts because the administrative costs for some deposits would probably outweigh the interest earnings. Among the administrative costs are the labor costs associated with having someone assume the responsibility for making deposits and establishing accounting controls.

We did not attempt to measure administrative costs because they would vary at each field office. However, the size of the earnings at some field offices would seem to support consideration of this option. For example, we estimate that making local deposits at 16 of the 90 field offices we sampled in IRS' North Atlantic Region would have earned $11,000 or more, for a total of $312,800.

Field Office	Estimated annual earnings (note a)
Cambridge, MA	$12,500
Lynn, MA	11,800
Quincy, MA	13,600
Springfield, MA	11,300
Flushing, NY	11,500
Jamaica, NY	11,600
Mineola, NY	36,200
Smithtown, NY	37,700
Rochester, NY	16,500
Syracuse, NY	16,800
Wethersfield, CT	15,400
Bronx, NY	21,900
Midtown, NY	43,100
Uptown, NY	13,000
White Plains, NY	25,900
Yonkers, NY	14,000
	$312,800

a/Estimated earnings at each field office were computed by multiplying the interest earnings associated with tax payments received by individual revenue agents and officers by the number of agents and officers in each field office.

Procedural safeguards needed

Officials in district and field offices we visited believed that a system for depositing payments locally would need to have safeguards similar to those built into the present deposit process. The current process

--requires revenue officers to submit daily collection reports and revenue agents to submit payment posting vouchers whenever payments are received;

--involves a teller at a district office who verifies the receipt of payments and prepares deposits;

--provides for checks to be stamped with a number that can be used to trace the payment if necessary; and

--credits the taxpayer's account to reflect the payment received.

We believe that the only major change required would be to designate tellers at field offices. Most IRS group managers we

spoke with favored designating a person as teller in order to maintain control over incoming payments. Depending on the staffing at particular field offices, the group managers believed the teller duties could be handled on a part-time basis by a group clerk or a revenue officer. District offices would continue to credit taxpayer accounts to record payments; therefore, field offices would need to forward a deposit receipt with appropriate taxpayer documentation to district offices.

Because most field offices lack the necessary computer equipment, checks deposited directly at banks located near field offices would not be assigned a control number by IRS' computer--a process which is now used to trace payments to the transaction documents if necessary at a later date. It is possible, however, that IRS could assign control numbers to deposit tickets, much the same way that IRS assigns control numbers to FTD cards after FTD payments are deposited at banks. If IRS believes there is a need to number locally deposited checks, appropriate procedures could be established to accomplish this at field offices.

BGFO would need to establish depositary arrangements

Before field offices can deposit tax receipts, arrangements to accept the deposits must be made with a local bank that has an authorized Treasury General Account. [1]/ BGFO, which is responsible for such arrangements, presently manages Treasury General Accounts for about 700 banks throughout the United States. To establish a new account or renegotiate an existing one, BGFO would need to

--conduct a cost-benefit analysis on whether the volume and size of deposits warrants a new arrangement;

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[1]/Treasury General Accounts are maintained at commercial banks for the purpose of receiving deposits from Federal agencies. In general, these accounts operate much like remittance option tax and loan accounts--which receive deposits from taxpayers--in that depositaries are required to transfer deposits to Treasury accounts at the Federal Reserve on the day after a deposit is made.

--establish or add to a compensating balance to cover deposits that would be made into the account; [2]

--negotiate a contract with the bank (or renegotiate the contract if one already exists); and

--monitor on a continuing basis the operation of the account.

BGFO officials told us that their resources to negotiate and monitor Treasury General Accounts are very limited. Given their current backlog in evaluating the performance of existing accounts, they doubted whether they would be able to establish new depositary arrangements in the near future. However, BGFO is presently modernizing the Treasury General Account mechanism and tentatively plans to improve the monitoring of these accounts. BGFO is also encouraging Federal agencies to send receipts to a series of lockboxes strategically located around the country. They suggested that IRS consider using lockboxes instead of local deposits by field offices.

Lockbox deposit of field office receipts is another option for speeding deposits

As an alternative to depositing field office receipts in local banks, BGFO officials suggested that IRS might consider mailing tax receipts to strategically located lockboxes. Under this system, commercial banks contract with Treasury and a Government agency to process and deposit agency receipts which are mailed to designated post office boxes. Treasury has already established several lockbox sites for the U.S. Customs Service and plans to establish a nationwide network of 8 to 10 lockboxes which will be located so as to minimize the time used to mail and collect funds from the banks that checks are written on (see ch. 4 for a discussion of how depositaries process checks). With only 8 to 10 lockbox contracts to manage, BGFO would be better able to negotiate and monitor the necessary depositary arrangements. As of June 1983, BGFO was still in the early stages of developing specific procedures that will allow

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[2]Treasury maintains compensating balances in noninterest bearing accounts in depositaries to defray the administrative costs associated with servicing these accounts. A significant portion of the money needed to cover field office deposits could be obtained by reducing the balances maintained at district office depositaries. This is because the balances at the district office depositaries should be adjusted downward to reflect the loss of field office deposits.

agencies such as IRS to determine whether the lockbox concept has merit for their particular situation.

BGFO officials told us that they believe use of lockboxes would allow IRS to reduce the time (5 to 7 days) it now takes to deposit field office receipts. They explained that savings should result not only from reduced mail time but also from reduced processing time. Remittances would be received directly by a depositary instead of first routed through an IRS district office.

An accurate estimate of the actual interest earnings would require further study by IRS following procedures being developed by Treasury. However, we estimate that if field office receipts could be deposited within 2 days, as opposed to 5 to 7 days, about $543,000 in interest ($42,000 from advance payments and $501,000 from delinquent tax collections) could have been earned in IRS' North Atlantic Region. Another $254,000 could have been earned in the Central Region on delinquent tax collections.

As discussed in connection with depositing field office receipts in local banks, potential interest earnings would have to be balanced against IRS administrative costs in determining which field offices should make lockbox deposits. Another cost factor to be considered would be bank charges to process lockbox deposits. Procedural safeguards would also need to be spelled out to ensure proper posting of lockbox receipts to taxpayer accounts.

IRS officials question whether use of lockboxes would significantly reduce mail time given the remote location of many IRS field offices from a potential lockbox site. They agree that the deposit of field office receipts needs to be accelerated but without further study, they are unsure of the best approach. We agree with IRS that more study needs to be done.

CONCLUSIONS

IRS would increase interest earnings if field offices were able to deposit tax receipts faster. Currently, receipts are forwarded to district offices for processing and deposit. We identified delays of 5 to 7 days in the deposit of revenue officer and agent receipts which, over the period of a year, resulted in foregone interest in two IRS regions of about $1.3 million. There are at least two ways IRS could reduce this amount. First, some field offices could deposit tax receipts with local banks. By depositing tax receipts locally on the day after they are received, about $1 million of the foregone interest associated with current procedures could be made available to the Government. However, the administrative costs to set up local deposits and the limited ability of BGFO to negotiate the

necessary depositary arrangements probably make it impractical to have all IRS field offices make local deposits. Thus, under this alternative, BGFO's limited resources would have to be considered and priorities would need to be established for purposes of determining which locations to designate. One criterion for prioritizing locations could be the extent to which interest earnings derived from local deposits exceed the costs of implementation.

An alternative to local deposits is to have field office personnel mail tax receipts directly to Treasury-established lockboxes which would be operated by major banks around the country. Because Treasury's lockbox proposal is still in the planning stages, we could not determine the amount of time that could be saved if field office receipts were mailed to lockboxes. However, if current delays of 5 to 7 days were reduced to 2 days, about $800,000 in additional interest would have been earned in IRS' North Atlantic and Central Regions during the period we sampled.

RECOMMENDATIONS TO THE COMMISSIONER OF INTERNAL REVENUE

We recommend that the Commissioner, in conjunction with the Commissioner of the Bureau of Government Financial Operations, reduce the deposit time for field office tax receipts. Allowing field offices to deposit receipts in local banks and/or mailing tax receipts to designated bank lockboxes are two alternatives which could be considered in implementing this recommendation.

AGENCY COMMENTS AND OUR EVALUATION

In a June 20, 1983, letter (see app. I), IRS agreed with our recommendation and stated that it is preparing an implementation plan to centralize all remittance processing activities in the 10 service centers. IRS stated that this planned action, in conjunction with procurement of check sorters (see ch. 4), will accelerate IRS deposit time as well as the availability of these deposits.

We agree that centralizing the remittance processing and deposit activity at IRS service centers should improve the efficiency of this activity. However, we question whether the centralization will resolve some of the cash management issues identified in this chapter. For example, field offices will still be required to send revenue receipts to another IRS office--a service center--for deposit. Therefore, deposit of the receipts will continue to be delayed by the time it takes to reach that office. Further, centralizing all remittance processing activities at service centers may create additional delays in depositing revenues received directly by district office personnel. Under current IRS procedures, district offices are required to deposit receipts of $5,000 or more

within 24 hours of receipt. Presently, when these receipts are collected and deposited by district office personnel, there is no delay associated with sending the receipts to another IRS office for deposit. Under IRS' planned centralization of remittance processing, however, delays would occur because receipts will be forwarded to a service center. Thus, we question whether IRS' planned actions go far enough towards resolving the problem and think that IRS should review its centralization decision to determine if it can further reduce field and district office deposit time.

CHAPTER 4

IRS' INSTALLATION OF CHECK-SORTING EQUIPMENT OFFERS ADDITIONAL ADVANTAGES TO THE GOVERNMENT

During fiscal year 1982, IRS deposited about $139.6 billion in commercial and Federal Reserve banks. Each of the depositaries used by IRS' 10 service centers, which account for the bulk of IRS deposits, has a separate arrangement for making deposits available for use by the Treasury. Because most taxes are paid by check, the time it takes a depositary to sort and collect funds on checks is a key factor governing when funds are made available to the Treasury.

IRS is currently testing the feasibility of sorting checks itself which it believes will increase the availability of funds to the Treasury. We share IRS' beliefs. We also believe that IRS may be able to derive additional advantages in terms of extending deposit cutoff times and improving depositary arrangements. Also, at least some of IRS' costs to install check-sorting equipment could be offset by reduced check-processing costs at Federal Reserve banks. IRS should consider all of these factors in deciding whether to install check-sorting equipment at service centers.

IRS DEPOSITARY ARRANGEMENTS

During fiscal year 1982, IRS service centers and district offices deposited about $139.6 billion in commercial and Federal Reserve banks. IRS' 10 service centers accounted for most of the deposits as shown in the following table.

Service center	Amount deposited (billions)
Andover, MA	$ 8.2
Atlanta, GA	11.2
Austin, TX	16.8
Brookhaven, NY	12.1
Cincinnati, OH	6.9
Fresno, CA	14.8
Kansas City, KS	11.2
Memphis, TN	10.3
Ogden, UT	11.8
Philadelphia, PA	8.8
Total	$112.1

Treasury's BGFO is responsible for selecting depositaries for IRS. As of April 1983, six service centers deposited tax revenues in commercial banks and four made deposits in Federal

Reserve banks. A primary criteria used by BGFO to select depositaries is how soon a depositary is willing to make deposited funds available to the Treasury.

Because most tax payments are made with checks, the availability a depositary is willing to provide depends largely on how long it takes a depositary to collect funds from the paying bank or the bank a check is drawn on. For example, a bank is less likely to offer immediate availability of funds for a deposit that includes a high percentage of checks drawn on distant banks because it takes longer to collect from these banks than from local banks.

Each of the depositaries used by IRS' 10 service centers has a separate arrangement as to when deposits are available for use by the Treasury. Five service center depositaries guarantee the percentage of funds they will make available to the Treasury on the day after IRS makes a deposit; four depositaries make funds available when the deposited checks have cleared the paying bank (termed "actual" availability); and one depositary provides a mix of guaranteed and actual availability. The following table shows the depositary arrangement that each service center had in April 1983.

Service center	Type of depositary	Percentage of next day availability
Andover, MA	Commercial	100
Atlanta, GA	Commercial	93
Austin, TX	Commercial	a/actual (81.5)
Brookhaven, NY	Commercial	100
Cincinnati, OH	Federal Reserve	a/actual (93)
Fresno, CA	Federal Reserve	100
Kansas City, KS	Commercial	(b)
Memphis, TN	Commercial	a/actual (46)
Ogden, UT	Federal Reserve	a/actual (60)
Philadelphia, PA	Federal Reserve	100

a/The percentage figure in parenthesis represents the availability Treasury normally receives on the next day under the actual availability arrangement.

b/The Kansas City Service Center receives actual availability on Monday through Thursday deposits which generally results in about 91 percent availability of funds on the next day. For deposits made on Fridays, the bank guarantees 100 percent availability on the next business day.

Each availability arrangement is contingent on the deposit arriving at the depositary by a specified cutoff time. For example, about 90 percent of the items deposited by the Cincinnati Service Center are available to Treasury the next day if they are deposited by 2 p.m. Deposits made after 2 p.m. are considered next day deposits and therefore are most likely to be made available to the Treasury 2 days after the actual date of deposit. Deposit cutoff times vary by service center with Cincinnati having the earliest cutoff and Philadelphia the latest cutoff at 8 p.m. IRS service centers generally try to schedule their mail deliveries and remittance processing work shifts according to their individual cutoff time requirements. However, as discussed below, deposits by the Fresno Service Center as of August 1982 were not available to Treasury on the next day because it was depositing funds after its designated cutoff time.

IRS TESTED A CHECK-SORTING SYSTEM

Currently, IRS sends check remittances to depositaries--either a Federal Reserve bank or a commercial bank--where they are sorted by paying bank location. The time taken by banks to perform this operation affects when IRS must make its deposit.

For example, IRS' Cincinnati Service Center normally makes 2 p.m. deposits in the Cincinnati branch of the Federal Reserve Bank so that the bank has 3 to 4 hours to process and sort the checks before reporting the deposit for credit to Treasury's account. IRS tested the feasibility of sorting checks during its remittance processing activity. It believes that by eliminating the need for Federal Reserve or commercial banks to sort checks, funds could be made available to the Treasury more quickly.

To assist banks in collecting funds from paying banks, the Federal Reserve operates 48 check-processing centers, referred to as Regional Check Processing Centers (RCPCs), 1 at each of the 12 district banks, 1 at each of 25 branch banks, and 11 in other cities. Each processing center services a given geographical area, known as a zone, and is linked with other centers by air courier and wire services. Checks are generally sent to the RCPC of the paying bank for processing and collection.

The use of RCPCs to collect funds on checks requires that the checks be sorted by paying bank location. The sorting process is highly mechanized, using high-speed sorting and data processing equipment. This is made possible through the use of machine readable magnetic encodings on checks which show the Federal Reserve zone and the paying bank. The time taken to sort checks is one factor governing when IRS must make deposits.

IRS tested a check-sorting operation at its Fresno Service Center to determine if this kind of operation would increase the availability of funds to the Treasury. Prior to the test, the Fresno Service Center delivered deposits to the San Francisco Federal Reserve Bank at approximately 8 p.m. daily. The 8 p.m. delivery time was dictated by workshift and courier schedules. Since the deposits were received by the Federal Reserve after the 3 p.m. cutoff time for Government deposits, funds were held over until the next day for credit to Treasury's account. For example, a deposit made at 8 p.m. Monday would be credited on Tuesday and not made available to Treasury until Wednesday.

During the test period, the Fresno Service Center sorted checks into five categories: checks drawn on (1) San Francisco banks, (2) banks serviced by the San Francisco RCPC, (3) Los Angeles banks, (4) banks serviced by the Los Angeles RCPC, and (5) other banks. IRS made two deliveries each to its San Francisco and Los Angeles depositaries--one delivery was for city checks and the other was for RCPC area checks. Each was designed to take advantage of the different deposit cutoff times the banks have for each category of check. Checks that were sorted into the "other" category were included in one of the four deliveries.

According to officials at the San Francisco Federal Reserve Bank, by sorting the Fresno deposit, IRS will accelerate the availability of funds in Treasury's account by 1 day for all checks drawn on banks in the Los Angeles and San Francisco Federal Reserve territories which include all of Arizona, California, and Hawaii. Assuming IRS accelerated the availability of funds by 1 day on all checks deposited by the Fresno Service Center, BGFO estimated in June 1982 that the interest earnings from check sorting would be $7.2 million annually based on an annual deposit volume of $13.3 billion and a 13.65 percent interest rate. Using the Treasury tax and loan account rate for March 1983 (8.52 percent) and the same deposit volume, we estimate that annual interest earnings could have been $4.5 million.

Testing at the Fresno Service Center began in October 1982 and ran about 4 months. IRS estimated the cost of equipment (hardware and software) to conduct the test would be about $37,000.

If check-sorting equipment were installed on a permanent basis at each of IRS' 10 service centers, IRS estimates that annual hardware, software, and maintenance costs would be about $1.7 million. IRS officials stated that a decision to install check-sorting equipment at other IRS service centers would be made on a case-by-case basis. This is because each service center has its own depositary arrangement. Also, because most of the other service centers already deliver checks in time to receive next day availability of funds for the Treasury, IRS officials maintain that these other service centers could not be expected to achieve the interest gains projected for the Fresno Service Center. However, in making its decision, we believe there are additional factors for IRS to consider.

CHECK SORTING OFFERS ADDITIONAL ADVANTAGES WHICH IRS SHOULD CONSIDER

IRS' primary consideration in initiating its check-sorting test was the 1-day gain in availability that resulted from sorting the Fresno Service Center deposit and making separate deliveries to the San Francisco and Los Angeles Federal Reserve Banks. However, IRS' justification for testing a check-sorting system at the Fresno Service Center did not include certain factors. For example, IRS will realize benefits from the additional volume of checks that can be processed and deposited on the same day. Also, IRS check sorting could allow the Federal Reserve banks to offer more competitive depositary arrangements than commercial depositaries. And finally, some of IRS' costs to sort checks could be offset by decreased check processing costs for the Federal Reserve.

Extending the deposit cutoff time

Before presenting a check for payment, banks sort each check by bank location. The time taken to sort checks is one of the factors banks consider when establishing IRS' deposit cutoff time. Checks now processed after a service center's deposit cutoff time are held over and deposited the next day. By extending the deposit cutoff time, many of the held-over checks could be deposited the same day they were processed. For the additional checks deposited, the Government would earn 1 additional day of interest.

Potential interest gains at the Cincinnati Service Center

The Cincinnati Service Center's remittance processing cycle is presently cut off at 11 a.m. daily in order to meet a 2 p.m. deposit deadline at the Cincinnati branch of the Federal Reserve Bank. This Federal Reserve branch typically sorts IRS' deposits into the following categories: checks written on (1) Cincinnati banks, (2) banks in the Cincinnati RCPC zone, (3) other Federal Reserve city banks, and (4) banks in other Federal Reserve RCPC zones. Federal Reserve officials told us that, if IRS performed this sort for them, IRS could delay its deposits until at least 6 p.m. and still achieve the same availability of funds on the next day (about 90 percent). Further, those officials told us that if IRS were willing to make separate deposits for each sort category, IRS could deposit some categories even later. For example, checks written on local Cincinnati banks could be deposited as late as noon the next day and receive immediate availability.

If the Cincinnati Service Center could have extended its deposit cutoff by 4 hours, we estimate, based on 1981 volumes and IRS' remittance processing standards, that over the course of a year the service center could have processed and deposited at least an additional $9.8 million on the same day of receipt. This would have yielded an annual interest gain of about $1.3 million based on a 13.65 percent rate of interest. Interest gains would be greater if the service center made multiple deposits by sort category. However, the potential interest gains would have to be evaluated and compared with the costs of any additional courier deliveries and any added labor costs associated with extending work shifts.

Similar interest earnings expected at the Fresno Service Center

Check sorting should also allow the Fresno Service Center to process and deposit more checks on the same day. Before the service center began its test, the cutoff time for check processing was about 3 p.m. for checks deposited that day. Checks

were picked up by a courier between 4 and 5 p.m. and arrived at the San Francisco Federal Reserve Bank by about 8 p.m. With check sorting at the service center, checks drawn on banks in the Los Angeles and San Francisco RCPC zones can be delivered about 4 hours later (at 12:01 a.m.) and local city bank checks can be delivered 16 hours later (at noon) and the funds would be immediately available to Treasury.

Fresno Service Center officials could not estimate how many additional checks could be processed and deposited as a result of extending the deposit cutoff time. They told us that such factors as the courier delivery schedule, the scheduling of the remittance processing shift, and the reliability of the check-sorting equipment are still being evaluated and will affect processing volume. They agreed, however, that they should be able to process and deposit additional checks on the same day.

Potential savings less clear with commercial depositaries

To determine if commercial depositaries would allow a similar extension of IRS' deposit schedule, we contacted four of the six commercial depositaries that handle service center deposits. Officials at two commercial banks stated that IRS could make later deposits but only by 1 or 2 hours, and this might be contingent upon IRS making multiple deposits. An official at one of these banks doubted that IRS would be willing to meet his bank's sorting requirements. He explained that IRS' check deposits are typically sorted into many more categories than the basic sorts required by the Federal Reserve. Officials at the other two banks we contacted did not believe check sorting would allow IRS to make later deposits.

Although check sorting would appear to offer fewer benefits to service centers which make deposits in commercial banks, we believe IRS should still consider check sorting at these locations. As discussed below, installation of check-sorting equipment could result in more service centers using a Federal Reserve bank as a depositary.

Increased use of Federal Reserve banks as depositaries

Federal Reserve officials told BGFO that if IRS sorted checks prior to making its deposits, Federal Reserve banks should be able to make funds available to Treasury as soon as commercial banks. BGFO officials explained to us that commercial banks are better equipped to sort checks than Federal Reserve banks. Consequently, the Federal Reserve generally requires earlier deposits when it receives unsorted checks in order to offer the same availability of funds as commercial banks. With sorted deposits, IRS checks could pass directly

into the Reserve's check-clearing system. Presently, 4 of 10 IRS service centers use a Federal Reserve bank as a depositary; the remaining 6 use commercial banks.

If Federal Reserve banks and commercial banks provided IRS with comparable depositary arrangements, BGFO officials believe it would be to the Government's advantage to make deposits with the Federal Reserve banks. First, each IRS service center would be dealing with the Federal Reserve System rather than individual commercial banks, so it would be easier to standardize depositary procedures. Second, BGFO would not have to negotiate and monitor individual bank agreements. And finally, IRS would be sorting checks for direct input into the Federal Reserve's check-clearing system and there would be no need to route deposits through a commercial bank since these banks would, for the most part, simply be passing IRS' deposit through the same system. BGFO officials told us that if IRS successfully adopted check sorting, they would probably reevaluate IRS' depositary arrangements with commercial banks.

A number of factors would need to be considered in evaluating the competitiveness of Federal Reserve depositary arrangements, including (1) when funds would be made available to Treasury, (2) when IRS must make its deposits to receive this availability, and (3) the cost of "Federal Reserve float" that might result from IRS' deposits. (Federal Reserve float occurs if the Federal Reserve makes funds available to Treasury before actually collecting the deposited amount from the bank on which a check is drawn.)

Opportunity to reduce Federal Reserve check-processing costs

Where IRS uses Federal Reserve banks as depositaries, some of IRS' estimated $1.7 million cost to purchase and maintain check-sorting equipment could be offset by the Federal Reserve's reduced check-processing costs. Presently, Treasury does not directly reimburse the Federal Reserve for costs the Reserve incurs to sort and process IRS' check deposits. [1/] However, the Reserve's costs are passed on to Treasury in the form of decreased earnings. If IRS sorted checks, some of these costs might be reduced.

[1/]Under a 1978 fiscal agent services agreement, Treasury agreed to reimburse the Federal Reserve for processing IRS' check deposits at the time the Congress appropriates funds for this purpose. To date, no appropriation has been made, so there has been no reimbursement.

The Federal Reserve System's check-processing costs are based on the location of the paying bank, the Federal Reserve RCPC which processes the check, and the volume of checks being deposited. The Monetary Control Act of 1980 requires the Federal Reserve System to charge for its check-clearing services and sets forth the principle that fees should be based on all direct and indirect costs. Each Federal Reserve RCPC maintains its own fee schedule. Within each RCPC, fees vary according to whether a check was drawn on a bank in the same city as the RCPC, on a bank in the same RCPC zone, or on a bank in another RCPC zone. For example, when sorting and processing checks written on Cincinnati banks, the Cincinnati RCPC currently charges $.0148 per check, while the cost to sort and process checks written on banks in other RCPC zones is $.0416 per check.

An official at the Cincinnati Branch of the Federal Reserve explained that sorting checks prior to deposit allows a depositary to reduce its charges for checks drawn on banks in other RCPC zones (termed "other Fed" checks) because these checks can be sent directly for processing to RCPC's whose territories include the paying banks. For example, sorting checks would allow a depositor, who otherwise deposits all checks with the Cincinnati RCPC, to present a check written on a Detroit bank to the Detroit RCPC. The charge for processing that check would be reduced from $.0416 to $.0210 ($.0146 to process a city check and $.0064 for transporting the check from Cincinnati to Detroit via the Federal Reserve's transportation system.)

During 1981, the Cincinnati Service Center deposited 6,013,025 checks with the Federal Reserve branch bank in Cincinnati. Statistics on the location of the banks these checks were drawn on were not available; however, a Federal Reserve official in Cincinnati told us that the majority of the service center's deposits are other Fed area checks. Using daily reports prepared by the Cincinnati bank, we found that, over a 7-day period, about 85 percent of the Cincinnati Service Center's deposits were checks written on banks in other Fed areas. Assuming a similar proportion for IRS' 1981 volume, Federal Reserve costs to process the Cincinnati Service Center's deposits could have been reduced by $80,000 to $100,000 depending on how many checks were written on banks in the same city as the RCPC and how many were written on banks in the same zone as the RCPC. Cost reductions resulting from other IRS service centers using a Federal Reserve bank as a depositary would depend on the volume and proportion of other Fed area checks.

CONCLUSIONS

IRS recently tested the feasibility of installing check-sorting equipment at its Fresno Service Center. If the equipment is installed at the service center, Treasury's BGFO estimates that the Government will gain about $7.2 million

annually because the Los Angeles and San Francisco Federal Reserve banks, which would act as the depositaries for Fresno's remittances, will credit Treasury with the funds 1 day sooner. IRS plans to decide on a case-by-case basis whether to install check-sorting equipment at other service centers because each service center has its own depositary arrangements. IRS' preliminary estimate is that it would cost about $1.7 million to install check-sorting equipment at all 10 IRS service centers.

IRS' justification for testing a check-sorting system was the 1-day gain in availability of tax deposits from the Fresno Service Center, but there are additional factors that IRS should consider when deciding whether to install check-sorting equipment at other service centers. First, some service centers would be able to extend their deposit cutoff time and thereby deposit more checks on the same day they are processed by the service center. We estimated that the savings associated with extending the deposit cutoff time at the Cincinnati Service Center would be about $1.3 million annually. Second, if IRS sorted checks, branches of the Federal Reserve might be able to offer more competitive depositary arrangements than those currently in effect with the commercial depositaries now used by 6 of IRS' 10 service centers. In deciding whether IRS should sort its checks and use either commercial depositaries or the Federal Reserve, the direct and indirect costs at IRS, BGFO, and the Federal Reserve should be considered along with changes in fund availability.

Finally, at those Federal Reserve banks which receive IRS deposits, check-processing costs should be reduced and Federal Reserve earnings increased. We estimated that cost reductions at the Cincinnati Branch of the Federal Reserve would range between $80,000 and $100,000 annually.

RECOMMENDATION TO THE COMMISSIONER OF INTERNAL REVENUE

We recommend that the Commissioner require that evaluations of whether to install check-sorting equipment at IRS service centers also consider (1) the potential interest earnings associated with extending the service centers' deposit times, (2) the costs and benefits derived from increased use of Federal Reserve banks as depositaries, and (3) the cost offsets to be gained through decreased check-processing costs for Federal Reserve depositaries.

AGENCY COMMENTS

In a June 20, 1983, letter (see app. I), IRS agreed with our recommendation and said that a working group made up of

representatives from IRS, BGFO, and the Federal Reserve Board is being formed to study a decision model for the procurement of check-sorting equipment at all IRS service centers. IRS stated that the factors we identified in our recommendation will be considered in the decision process.

APPENDIX I

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 20, 1983

Mr. William J. Anderson
Director, General Government Division
United States General Accounting
Office
441 G St. NW
Washington, D.C. 20548

Dear Sir:

This is in response to your draft report entitled "Making Tax Deposits More Quickly Can Increase the Government's Interest Earnings" (GAO/GGD-83-59).

Enclosed are detailed comments from the Internal Revenue Service concerning the specific recommendations contained in the draft report. In general, the Internal Revenue Service agrees with the recommendations contained in the report.

In addition, the Treasury Department strongly endorses the recommendation contained in the GAO Report asking the Congress to reassess its position with respect to the payment of certain alcohol and tobacco excise taxes through electronic funds transfer.

Sincerely,

Cora P. Beebe
Assistant Secretary (Administration)

for Roscoe Egger, Commissioner
Internal Revenue Service

Enclosure

*GAO note: A draft of this report contained a chapter discussing the merits of using electronic funds transfer to collect alcohol and tobacco excise taxes. On the basis of comments received, we decided to reassess our position on the matter. Accordingly, we have deleted this chapter from the report.

IRS COMMENTS ON GAO RECOMMENDATIONS IN DRAFT REPORT ENTITLED "MAKING TAX DEPOSITS MORE QUICKLY CAN INCREASE THE GOVERNMENT'S INTEREST EARNINGS"

Page 21, Recommendation 1

We recommend that the Commissioner require taxpayers to send all payments accompanied by FTD cards, including those payments with corrected cards, directly to financial depositaries.

Comments

We agree with the recommendation.

Effective January 1984, the Internal Revenue Service will convert its FTD processing system to optical scanning equipment. Concurrently, the FTD will be converted from a punched card document to a scannable paper document which can be used for all types of taxes required by regulations to be paid to authorized depositaries. The only preprinted information on the new FTD form is the taxpayer identification number and name/address. The taxpayer will be instructed to mark a box on the form when the taxpayer identification number or the business name changes to indicate to the processing system that this data must be corrected for proper application of the payment.

The taxpayer will be instructed to properly forward all FTD payments to authorized depositaries.

We should note, however, that implementation of the recommendation as written, prior to the planned procedural changes noted above, in one respect, may actually increase operating costs. Depositaries can accept payments accompanied by corrected FTD cards, however, the payments may be applied to an incorrect entity or module. The resulting costs to trace and transfer an incorrectly credited payment would reduce or eliminate the cost benefit gained by the increased interest.

APPENDIX I

IRS COMMENTS ON GAO RECOMMENDATION IN DRAFT REPORT ENTITLED "MAKING TAX DEPOSITS MORE QUICKLY CAN INCREASE THE GOVERNMENT'S INTERRST EARNINGS"

Page 21, Recommendation 2

We recommend that the Commissioner develop a system that will enable IRS to make more informed decisions on whether to impose penalties on individuals who are not sending FTD payments to authorized depositaries.

Comments

We agree with the recommendation.

Treasury regulations require that all FTD payments forwarded to authorized depositaries be accompanied by the appropriate FTD card. The depositary is required to stamp the card with the name of the bank and the date received so that timeliness of the payment can be determined. A depositary will not accept an FTD payment without the FTD form.

One of the objectives behind the conversion to a paper FTD form and IRS assumption of the mailout responsibility is to improve the process of supplying taxpayers with the required forms. When this is accomplished in January 1984, the Internal Revenue Service will be in a better position to enforce the regulations which require FTD payments to be paid directly to authorized depositaries. The Internal Revenue Service is currently working with the Office of the Fiscal Assistant Secretary and the Bureau of Government Financial Operations in an effort to identify taxpayers and/or their representatives who repeatedly bypass the FTD system and to implement corrective action in those instances.

APPENDIX I

IRS COMMENTS ON GAO RECOMMENDATIONS IN DRAFT REPORT ENTITLED "MAKING TAX DEPOSITS MORE QUICKLY CAN INCREASE THE GOVERNMENT'S INTEREST EARNINGS"

Page 31, Recommendation

We recommend that the Commissioner, in conjunction with the Commissioner of the Bureau of Government Financial Operations, take action to reduce the deposit time for field office tax receipts. Allowing field offices to deposit receipts in local banks and/or mailing tax receipts to designated bank lock boxes are two alternatives which could be considered in implementing this recommendation.

Comments

We agree with the recommendation that action should be taken to reduce the deposit time for field office tax receipts.

In response to several IRS Internal Audit reviews of district office timeliness in depositing tax receipts, the Service is preparing an implementation plan to centralize all remittance processing activities in the 10 service centers. Implementation of this proposal, in conjunction with procurement of check sorters, will accelerate IRS deposit time and accelerate availability on those deposits. Further, it will reduce the number of Treasury General Accounts for the Bureau of Government Financial Operations to monitor and improve IRS monitoring of cash management as required by the Treasury Fiscal Requirements Manual.

Maximizing the use of remittance processing equipment in the IRS service centers and procurement of check sorters were also recommendations of President Reagan's Private Sector Survey on Cost Control which studied cash management.

APPENDIX I

IRS COMMENTS ON GAO RECOMMENDATIONS IN DRAFT REPORT ENTITLED "MAKING TAX DEPOSITS MORE QUICKLY CAN INCREASE THE GOVERNMENT'S INTEREST EARNINGS"

Page 42, Recommendation

We recommend that the Commissioner require that evaluations of whether to install check sorting equipment at IRS service centers also consider (1) the potential interest savings associated with extending the service centers' deposit times, (2) the cost and benefits from increased use of Federal Reserve Banks as depositaries, and (3) the cost offsets to be gained through decreased check processing costs for Federal Reserve depositaries.

Comments

We agree with the recommendation.

The Internal Revenue Service has discussed these objectives with the Bureau of Government Financial Operations, the Office of Management and Budget, and the Federal Reserve Board. A working group is being formed with participation from these agencies to study through a decision model the procurement of check sorters for all IRS service centers, the potential interest savings associated with extending the service centers' deposit times, the cost and benefits from increased use of Federal Reserve Banks as depositaries, and the cost offsets to be gained through decreased check processing costs for Federal Reserve depositaries.

A SELECTED LISTING OF GAO REPORTS ON CASH MANAGEMENT THAT HAVE BEEN ISSUED SINCE 1979

Major Financial Management Improvements Needed at the Department of Energy; OGC-82-1; September 15, 1982.

District of Columbia Banking and Short Term Investment Management; GGD-82-71; June 23, 1982.

Federal Agencies Negligent in Collecting Debts Arising From Audits; AFMD-82-32; January 22, 1982.

Actions to Improve the Timeliness of Bill Paying by the Federal Government Could Save Hundreds of Millions of Dollars; AFMD-82-1; October 8, 1981.

Delays in Receiving and Investing Taxes Are Reducing Railroad Retirement Program Interest Income; HRD-81-112; September 24, 1981.

Cash Management Improvements Will Save Federal Insurance and Benefits Programs Millions Annually; FGMSD-80-83; October 10, 1980.

Electronic Funds Transfer--Its Potential For Improving Cash Management in Government; FGMSD-80-80; September 19, 1980.

Delays in Investing Employee Withholdings and Government Contributions to the Retirement, Life Insurance, and Health Insurance Trust Funds; FGMSD-80-79; August 21, 1980.

SAMPLING METHODOLOGY AND RESULTS

During our review we selected random samples of (1) FTD payments processed by IRS' Andover and Cincinnati Service Centers, (2) collections reported by revenue officers in field offices of IRS' North Atlantic and Central Regions, and (3) advance payments on audit assessments made to revenue agents in field offices of IRS' North Atlantic Region.

FTD SAMPLE

We took a sample of FTD payments processed by the Andover and Cincinnati Service Centers to identify the reasons these payments were sent to IRS instead of to an authorized financial depositary, to determine how long it took from the time IRS received the payments until they were deposited, and to estimate any interest foregone by the Government.

We selected our sample from the universe of FTD payments which were sent to the Andover and Cincinnati Service Centers in payment for tax returns due during fiscal year 1981. Our sample was drawn from data that was extracted by IRS from its Business Master File and included payments in tax classes 1 (Federal withholding and FICA), 3 (corporate income), and 8 (Federal unemployment).

Our sample was stratified by service center (Andover and Cincinnati); payment size ($25,000 and over, $10,000 to 25,000, and under $10,000); and tax class (1, 3, and 8). From the listing provided by IRS, we chose a random sample of about 110 payments from each stratum. When the total number of payments received at the service centers was less than 110, such as for Federal unemployment tax payments over $25,000, we reviewed all of the payments for which documentation was available.

We excluded payments which were less than $500 for tax class 1 and which were $100 or less for tax class 8 because taxpayers are instructed to remit such payments to IRS with their tax returns. These payments are not FTD payments. We stratified our sample by payment size because of IRS' deposit requirements. For the period of our sample, IRS required service centers to process and deposit remittances $25,000 and over within 24 working hours. Remittances less than $25,000 were to be processed within 72 hours. Effective January 1, 1982, IRS instructed service centers to deposit remittances $10,000 and over within 24 hours and all other remittances within 48 hours during nonpeak periods. Effective October 1, 1982, IRS instructed service centers to deposit all remittances received during nonpeak periods within 24 hours. Our sample was

structured to reflect any differences in IRS' processing time that might relate to payment size.

The following tables show the total number of payments received by each service center and the number of items we sampled.

Number of FTD Payments Sampled at the Andover Service Center

Payment size	Federal withholding and FICA tax payments: Number of payments received	Sample size	Payments reviewed (note a)	Corporate income tax payments: Number of payments received	Sample size	Payments reviewed (note a)	FUTA tax payments: Number of payments received	Sample size	Payments reviewed (note a)	Total payments received
Less than $10,000 (note b)	73,664	107	107	1,110	111	90	12,108	110	109	86,882
Less than $25,000 but greater than or equal to $10,000	4,086	109	109	62	62	55	20	20	19	4,168
Greater than or equal to $25,000	2,733	109	109	77	77	64	9	9	8	2,819
Total payments received	80,483			1,249			12,137			93,869

a/The number of payments reviewed is sometimes less than the sample size because IRS occasionally was unable to locate the documentation relating to a payment.

b/Payments of less than $500 for Federal withholding and FICA taxes and payments of $100 or less for FUTA taxes were excluded from the count of the number of payments received by the service center.

APPENDIX III

Number of FTD Payments Sampled at the Cincinnati Service Center

Payment size	Federal withholding and FICA tax payments: Number of payments received	Sample size	Payments reviewed (note a)	Corporate income tax payments: Number of payments received	Sample size	Payments reviewed (note a)	FUTA tax payments: Number of payments received	Sample size	Payments reviewed (note a)	Total payments received
Less than $10,000 (note b)	60,066	112	110	6,803	109	109	b/11,885	110	108	78,754
Less than $25,000 but greater than or equal to $10,000	2,995	111	110	341	113	110	20	20	20	3,356
Greater than or equal to $25,000	2,215	111	111	304	101	98	11	11	11	2,530
Total payments received	65,276			7,448			11,916			84,640

a/The number of payments reviewed is sometimes less than the sample size because IRS occasionally was unable to locate the documentation relating to the payment.

b/Payments of less than $500 for Federal withholding and FICA taxes and payments of $100 or less for FUTA taxes were excluded from the count of the number of payments received by the service center.

APPENDIX III

The data we extracted from each sampled payment included the amount of the payment, the date it was received by IRS, and the date it was deposited. We used the difference between the date of deposit and the date of receipt to compute the interest foregone by the Government. The interest rate we used was the average Treasury tax and loan account rate for the month of the deposit. Using weighted averages for each category of payment sampled, we projected the amount of interest lost for the total number of FTD payments that were sent to each service center. Our results and projections are shown in the following tables.

ANALYSIS OF FOREGONE INTEREST RELATING TO FTD PAYMENTS SENT TO THE ANDOVER SERVICE CENTER

Federal Withholding and FICA Tax Payments (note a)

Payment size	Average payment amount	Number of payments	Average delay (days)	Projected interest foregone (note b)	Sampling error (+, -) (note c)
Less than $10,000	$ 2,300	73,664	7.0	$ 516,000	$ 98,000
Less than $25,000 but greater than or equal to $10,000	15,200	4,086	6.5	192,000	20,000
Greater than or equal to $25,000	159,500	2,733	4.2	571,000	222,000
Total				$1,279,000	

Corporate Income Tax Payments

Payment size	Average payment amount	Number of payments	Average delay (days)	Projected interest foregone (note b)	Sampling error (+, -) (note c)
Less than $10,000	$ 1,300	1,110	8.9	$ 5,000	$ 2,000
Less than $25,000 but greater than or equal to $10,000	14,700	62	6.1	2,000	700
Greater than or equal to $25,000	378,600	77	4.3	40,000	15,000
Total				$47,000	

FUTA Tax Payments (note a)

Payment size	Average payment amount	Number of payments	Average delay (days)	Projected interest foregone (note b)	Sampling Error (+, -) (note c)
Less than $10,000	$ 400	12,108	7.6	$12,000	$ 5,600
Less than $25,000 but greater than or equal to $10,000	16,400	20	7.6	1,000	100
Greater than or equal to $25,000	156,100	9	4.6	1,000	600
Total				$14,000	
Total of all classes				$1,340,000	77,000

a/The sample for Federal withholding and FICA payments did not include tax payments less than $500 and the sample for FUTA payments did not include tax payments of $100 or less.

b/Projected interest foregone = average payment amount X days delay X $\frac{\text{interest rate}}{365}$ X number of payments

The interest rates used to compute the projected interest foregone were the average monthly Treasury tax and loan account rates on the day a payment was received. The average Treasury tax and loan account rate for fiscal year 1981, the year our sample was drawn from, was 16.7 percent.

c/Actual foregone interest can be expected with 95-percent confidence to fall within the range of projected interest foregone plus or minus the sampling error.

ANALYSIS OF FOREGONE INTEREST RELATING TO FTD PAYMENTS SENT TO THE CINCINNATI SERVICE CENTER

Federal Withholding and FICA Tax Payments (note a)

Payment size	Average payment amount	Number of payments	Average delay (days)	Projected interest foregone (note b)	Sampling error (+, -) (note c)
Less than $10,000	$ 2,300	60,066	6.2	$358,000	$ 62,000
Less than $25,000 but greater than or equal to $10,000	15,200	2,995	6.3	129,000	17,000
Greater than or equal to $25,000	130,600	2,215	2.7	292,000	80,000
Total				$779,000	

Corporate Income Tax Payments

Payment size	Average payment amount	Number of payments	Average delay (days)	Projected interest foregone (note b)	Sampling error (+, -) (note c)
Less than $10,000	$ 1,600	6,803	8.0	$ 35,000	$11,000
Less than $25,000 but greater than or equal to $10,000	15,100	341	7.6	15,000	1,800
Greater than or equal to $25,000	124,400	304	3.2	92,000	69,000
Total				$142,000	

FUTA Tax Payments (note a)

Payment size	Average payment amount	Number of payments	Average delay (days)	Projected interest foregone (note b)	Sampling error (+, -) (note c)
Less than $10,000	$ 300	11,885	7.2	$ 8,000	$ 2,000
Less than $25,000 but greater than or equal to $10,000	14,600	20	11.2	1,000	0
Greater than or equal to $25,000	204,300	11	2.0	1,000	200
Total				$10,000	
Total of all classes				$931,000	$44,000

a/The sample for Federal withholding and FICA payments did not include tax payments less than $500 and the sample for FUTA payments did not include tax payments of $100 or less.

b/Projected interest foregone = average payment amount X days delay X $\frac{\text{interest rate}}{365}$ X number of payments

The interest rates used to compute the projected interest foregone were the average monthly Treasury tax and loan account rates on the day a payment was received. The average Treasury tax and loan account rate for fiscal year 1981, the year our sample was drawn from, was 16.7 percent.

c/Actual foregone interest can be expected with 95 percent confidence to fall within the range of projected interest foregone plus or minus the sampling error.

REVENUE OFFICER SAMPLE

We sampled collections by revenue officers to determine the dollar amount of taxes collected by officers in IRS field offices, any delay associated with forwarding these collections to district offices for deposit, and any corresponding interest foregone by the Government. We defined field office as any IRS office other than a district office or service center which might receive tax payments.

Our sample was selected from revenue officers' collections reported on Form 795--Daily Report of Collection Activity. We used IRS' Employee Service Record Report of October 31, 1981, to identify which revenue officer reports to sample from. Our sample was drawn from reports filed during 1981 by revenue officers in field offices of IRS' Central and North Atlantic Regions.

To determine our sample size, we used the results of a preliminary sample to compute a standard deviation. Because our preliminary sample showed that the amount collected by revenue officers varied considerably by grade, we stratified our sample by GS grade (GS-12, GS-11, GS-7/9). To select our sample, we generated a random listing of dates (excluding holidays and weekends) for each grade level and for each IRS region. The following table shows our sample structure.

IRS Region	Revenue officer grade	Total number of reports filed (note a)	Sample size	Number of reports reviewed (note c)
Central	GS-12	25,900	190	186
	GS-11	41,300	220	220
	GS-7/9	21,200	b/ 388	376
Total		88,400	798	782
North Atlantic	GS-12	35,400	190	183
	GS-11	60,500	220	217
	GS-7/9	7,500	390	362
Total		103,400	800	762

a/Total number of reports filed = number of employees at each grade X number of collection days (see note b in the following table)

b/Our sample size was reduced from 390 to 388 because duplicate random numbers were generated on the random number listing.

c/The number of reports actually reviewed is less than our sample size because either IRS was unable to locate reports or the revenue officer was reassigned, retired, or had not been assigned a caseload on the date of the report we requested.

The data we extracted from each collection report included the dollar amount collected, the collection date, and the date of receipt by a district office. We assumed, conservatively, that a district office deposited a collection on the day after it was received. We used the difference between the date of deposit and the date of collection to compute the interest foregone by the Government.

The table on the following page shows the results of our analysis.

Analysis Of Foregone Interest Resulting From District Office Deposit Of Field Office Receipts By Revenue Officers

IRS region	Revenue officer grade	Number of employees	Average delay to deposits days	Average interest foregone per collection (note a)	Number of collection days (note b)	Estimated 1981 interest foregone by region (note c)	Sampling error (+, -) (note d)
Central	12	121	4.6	$ 9.86	214	$ 255,000	$107,000
	11	198	4.9	3.49	208	144,000	61,000
	7/9	104	5.0	2.63	204	56,000	17,000
Total for region						$ 455,000	
North Atlantic	12	186	5.5	16.04	190	567,000	197,000
	11	322	4.8	3.93	188	238,000	75,000
	7/9	44	4.8	2.17	170	16,000	5,000
Total for region						$ 821,000	
Total for both regions						$1,276,000	$48,000

a/Average interest foregone per collection = Average Days Delay to Deposit X Average Daily Collection X Average Interest Rate / 365

The interest rates used to compute the interest foregone were the average weekly Treasury tax and loan account rates effective on the dates payments were collected. The average Treasury tax and loan account rate for calendar year 1981, the year our sample was drawn from, was 16.1 percent.

b/The number of collection days, based on our sample, is the estimated number of days in which officers filed a daily report of collection activity during 1981. We used 240 days as the maximum potential number of collection days.

c/Projected foregone per collection = number of employees X interest foregone X number of collection days. X regional rate interest in the region

d/The actual foregone interest can be expected with 95-percent confidence to fall within the range of that estimated for 1981 plus or minus the sampling error.

APPENDIX III

REVENUE AGENT SAMPLE

We sampled payments made to revenue agents and reported on payment posting vouchers to determine the dollar amount paid to agents in IRS field offices, any delay associated with forwarding these receipts to district offices for deposit, and any corresponding interest foregone by the Government.

Our sample was selected from payments posted to IRS' Individual and Business Master Files. IRS provided us with an extract of these payments for the Central and North Atlantic Regions for the period April 1981 through March 1982. Because IRS' data base was incomplete for the Central Region, we limited our sample to North Atlantic Region payments. We also limited our sample to payments received through IRS district offices (some payments are also received by revenue agents at IRS service centers) which included payments made to agents in IRS field offices.

We used the standard deviation of the payment amounts received by North Atlantic Region district offices to determine our sample size. Because we could not determine whether a sampled payment was received at a field office or a district office until we examined individual payment posting vouchers, we over sampled, based on the fact that about 65 percent of the revenue agents were located in field offices, to ensure that a sufficient number of field office payments were obtained. The following table shows our sample structure.

Total district office payments received in the North Atlantic Region		Sample size	Number of payment posting vouchers reviewed
Number of Payments	Amount of Payments (million)		
23,843	$133.1	406	a/338

a/The difference between the number of posting vouchers reviewed and the number requested (our sample size) occurred because either IRS was unable to locate the posting vouchers in their files (46 cases) or it was not clear from the posting voucher whether the payment was received at a district field office (22 cases).

The data we extracted from each payment posting voucher included the amount of the payment, whether it was received by an agent in a field office or a district office, the date of receipt, and the date of deposit by the district office. We used the difference between the date of deposit and the date of receipt to compute interest foregone by the Government.

Analysis Of Interest Foregone Resulting From District Office Deposit Of Field Office Receipts - Revenue Agents

IRS region (note a)	Number of payments reviewed	Number of payments from field offices	Percent coming from field offices	Field office payment universe (note b)	Average delay to deposit days	Projected field office payments (note c)	Projected interest foregone (note d)	Sampling error (+,-) (note e)
North Atlantic	338	220	65.1	15,522	6.7	$29,569,410	$66,000	$39,000

a/Data for the Central Region was not available.

b/Field office payment universe = total number of payments (23,843) x .651.

c/Projected field office payments = field office payment universe x average payment amount based on sample ($1,905).

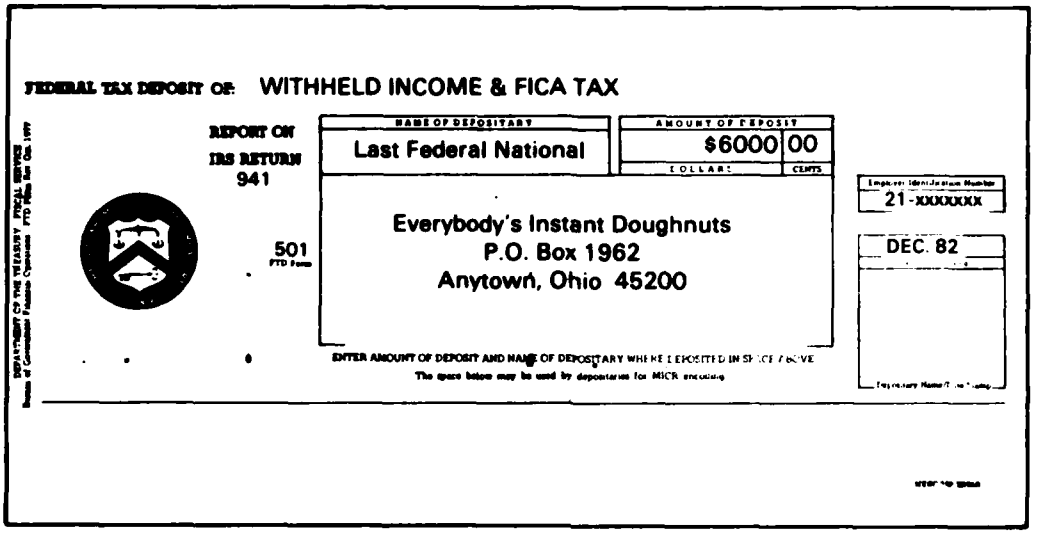
d/Projected interest foregone = field office payment universe x average interest foregone per payment ($4.26).

Average interest foregone per payment is based on the value of the individual payments received, the delay in depositing the payment, and the average weekly Treasury tax and loan interest rate effective on the day an agent received a payment. The average Treasury tax and loan interest rate for April 1981 through March 1982, the year our sample was taken from, was 15.5 percent.

e/The actual interest foregone can be expected with 95-percent confidence to fall within the range of projected interest foregone plus or minus the sampling error.

APPENDIX III

EXAMPLE OF AN FTD CARD



FEDERAL TAX DEPOSIT OF: WITHHELD INCOME & FICA TAX

DEPARTMENT OF THE TREASURY - FISCAL SERVICE
Bureau of Government Financial Operations - FTD Rec. Ret. Ch. 1 1977

REPORT ON
IRS RETURN
941

501
FTD Form

NAME OF DEPOSITARY	AMOUNT OF DEPOSIT	
Last Federal National	$6000	00
	DOLLARS	CENTS

Everybody's Instant Doughnuts
P.O. Box 1962
Anytown, Ohio 45200

Employer Identification Number
21-XXXXXXX

DEC. 82

ENTER AMOUNT OF DEPOSIT AND NAME OF DEPOSITARY WHERE DEPOSITED IN SPACE ABOVE
The space below may be used by depositaries for MICR encoding

Taxpayer Name/Trade Name

IMPORTANT

This Federal Tax Deposit form IS NOT transferable.

It has been prepunched for subsequent computer processing.

USE IT ONLY FOR THE PURPOSE INDICATED AT THE TOP OF THE FACE OF THE FORM!

BEFORE MAKING DEPOSIT - - Verify prenumbered data on the face of this form.

INCORRECT PREINSCRIBED DATA - If the Employer's identification Number or business name is incorrect do not use the forms to make deposits at an authorized depositary Instead correct one form in ink, enter number of forms required for remainder of tax period in "Depositary Name/Date" space and send corrected form with tax payment, if due, to the IRS office where you file your return If the business address, tax period ending, or type of tax is incorrect correct this information and use the form to make deposits with an authorized depositary or Federal Reserve Bank

HOW TO MAKE DEPOSIT - - Mail or deliver completed form together with check or postal money order for amount of tax deposit to a qualified Depositary for Federal taxes or mail to the Federal Tax Department of the Federal Reserve Bank or Branch (FRB) servicing the geographic area in which you are located. Remittance shall be made payable to the Depositary or FRB to which you mail or deliver your tax deposit.

FEDERAL AGENCIES WILL MAKE DEPOSITS OF FEDERAL TAXES AT FRBs OR BRANCHES ONLY.

Note: Deposits at authorized depositaries. Authorized depositaries are required to accept from a taxpayer cash, a postal money order drawn to the order of the Depositary, or a check or draft drawn on and to the order of the Depositary. Should you wish to make a tax deposit with a Depositary by a check drawn on another financial organization, you may do so only if the Depositary is willing to accept that form of payment as a deposit of Federal taxes

Note Deposits at Federal Reserve Banks and Branches (FRBs) Should you wish to make a tax deposit by check at an FRB, you must make that deposit with the FRB servicing the geographic area in which you are located with a check that is considered by that FRB to be an immediate credit item. An immediate credit item is a check or other payment instrument for which immediate credit is given in accordance with the check collection schedule of the receiving FRB. Checks generally considered as immediate credit items at FRBs include but are not limited to: checks drawn on commercial banks located in the same city as the FRB receiving the deposit. Information concerning the FRB which services your geographic area and checks which are considered by that FRB to be immediate credit items can be obtained from FRBs and commercial banks

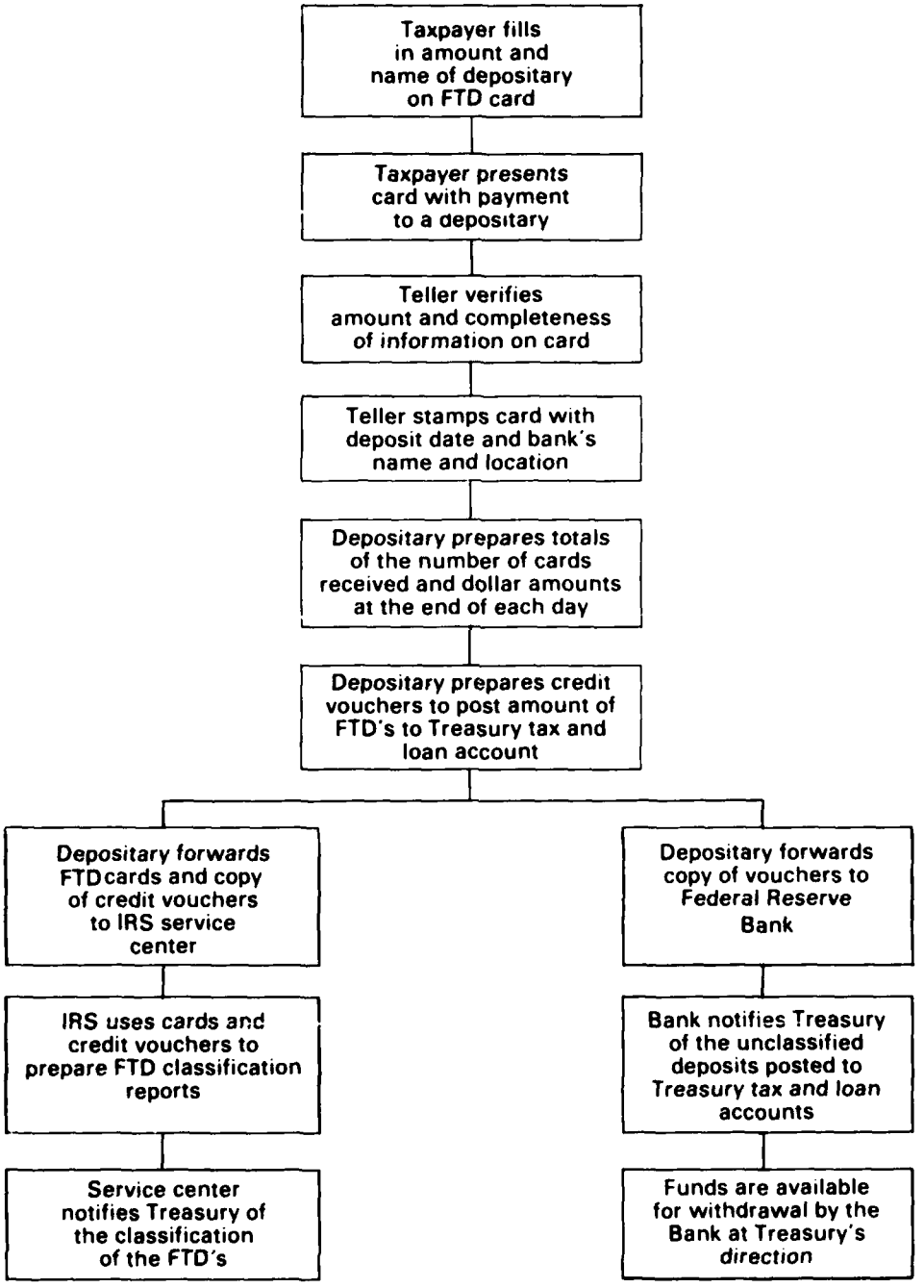
TIMELINESS OF DEPOSITS The timeliness of deposits will be determined by the date received by an authorized depositary or FRB However, a deposit received after the due date will be considered timely if the taxpayer establishes that it was mailed on or before the second day before the prescribed date Deposits made at FRBs which are not in compliance with the form of payment requirements will be processed, but dated on a collection basis. This date shall determine the timeliness of the deposit, regardless of when such deposits were mailed

WHEN TO MAKE DEPOSITS - - Employers should observe instructions set forth in Circulars A and E, tax return and /or accompanying instructions furnished by the Internal Revenue Service Extra copies of any of the above documents may be obtained from District Directors of Internal Revenue Questions concerning tax procedures should also be directed to District Directors of Internal Revenue

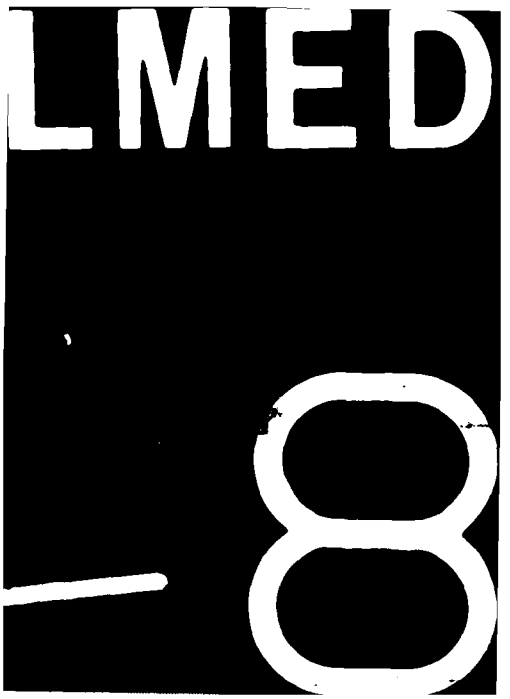
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APPENDIX V

FLOW CHART OF THE FEDERAL TAX DEPOSIT SYSTEM



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